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# Brazil's liberal neo-developmentalism: New paradigm or edited orthodoxy?

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## ABSTRACT

Is Brazil's economic policy regime a mere tinkering of the Washington Consensus? The evidence suggests that Brazilian governments institutionalized a hybrid policy regime that layers economically liberal priorities originating in the Washington Consensus and more interventionist ones associated with neo-developmentalist thinking. To capture this hybridity, the study calls this regime 'liberal neo-developmentalism'. While defending the goal of macroeconomic stability and sidelining full employment, Brazilian governments also reduced reliance on foreign savings and employed a largely off-the-books stimulus package during the crisis. Brazil experienced important privatization, liberalization and deregulation reforms, but at the same time the state consolidated its role as owner and investor in industry and banking while using an open economy industrial policy and a cautious approach to the free movement of capital. Finally, while conditional cash transfers fit the Washington Consensus, Brazil's steady increases in the minimum wage, industrial policies targeted at high employment sectors and the use of state-owned firms to expand welfare and employment programs better fit a neo-developmentalist policy regime. In sum, while the main goals of the Washington Consensus were not replaced with neo-developmentalist ones, Brazil's policy regime saw an extensive transformation of policy orthodoxy that reflects Brazil's status as an emerging power.

## KEYWORDS

BRICs; Washington Consensus; neo-developmentalism; Brazil; macroeconomic stability; liberalism; Lula; Rousseff; Keynesian.

## THE 'B' IN THE BRICS

In 2010, as the developed capitalist core was struggling with anemic growth rates, double digit unemployment and failing companies, Brazil's

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economy grew by a blistering 7.5 per cent. Its leading corporations were on a global acquisitions spree and, far from needing bailouts, Brazil's banks were building transnational empires and funded the internationalization of Brazilian firms. With a GDP of two trillion dollars, Brazil had an economy bigger than Italy's, comparable in size to Britain and France (The Economist, 2011) and ranked as the fourth most attractive investment destination after China, the US and India (*World Investment Prospects Survey*, 2009/2010). To boot, there was robust evidence that economic development was increasingly inclusionary, with unprecedented cuts in poverty and inequality being reported at the decade's end.

With what kind of policy regime did get Brazil to this point? How do we understand the goals of Brazilian economic policy and the policy instruments with which these goals were pursued in terms of the existing vocabulary on policy paradigms used in political economy? And do they constitute a significant departure from the Washington Consensus, or merely a local tinkering of it? Have the last economic crisis and the dawn of the post-Lula era changed anything in what the existing literature tells us about Brazil?

The main argument advanced in this article is that Brazil's current socioeconomic policy regime is neither a local replica of the Washington Consensus, nor a revolutionary departure from it. Instead, the evidence suggests that it is a hybrid made out of economically *liberal* policy goals and instruments associated with the Consensus and policy goals and instruments that can be traced to the *developmentalist* tradition. To capture this hybridity in one term I dub this paradigm 'liberal neo-developmentalism'.

This paper attempts to identify not just gaps in the 'real-existing' Washington Consensus, but also to look across policy areas in order to map out the boundaries of the alternative model that emerges from the heavy editing of that policy consensus and to produce a usable label for it. The adequate pursuance of this limited goal in this paper does not come without costs. Most importantly, I leave out interesting questions about the interplay of ideas and interests, domestic and transnational diffusion agents or the extent to which the domestic political game mediated external structures. The article also leaves to future scholars the identification of the mechanisms that brought Brazil down the liberal neo-developmentalist road, rather than on some other path.

The article is organized as follows: the first section compares neo-developmentalism with 'old' developmentalism and the Washington Consensus. Next, by drawing on the literature on policy diffusion, the study proposes two competing hypotheses about Brazil's relationship with this policy framework. One hypothesis predicts mostly the reproduction of the 'Washington Consensus', with minor changes, while the other predicts transition towards liberal neo-developmentalism. The remaining sections undertake a systematic evaluation of the evidence for and against these two hypotheses over the past decade in an attempt to define what policy regime was dominant in Brazil at the end of the 2000s.

## FROM DEVELOPMENTALISM TO NEO-DEVELOPMENTALISM (VIA THE WASHINGTON CONSENSUS)

In this special issue Sarah Babb provides a rich and dynamic definition of the Washington Consensus, a body of thought that draws on the liberal tradition in economics. As this paper makes clear, Brazil has put into practice many of the policy pillars associated with it. What about neo-developmentalism? This term was first used in 2003 by Brazilian economist and former policy-maker Luiz Carlos Bresser-Pereira, in an attempt to define an alternative to the Washington Consensus orthodoxy (Bresser-Perreira, 2003, 2004, 2007a, 2009, 2010). But Bresser-Perreira was not alone. Similarly important in this debate has been the advocacy of Antonio Barros de Castro, a state bank official during the Lula years (Castro, 2008) and the work of sociologist Celia Kerstenetzky on the importance of marrying developmentalism and the welfare state (Kerstenetzky, 2010, 2011). By the end of the decade, the term caught up in some quarters of Brazilian economics and political economy (Sicsu *et al*. 2004; Arbix *et al*., 2010; Doctor, 2009; Morais and Saad-Filho, 2011) just as it began to enter the international development discourse (Khan and Christiansen, 2010). The development of this concept climaxed in 2010, at a Sao Paolo convention, where prominent Brazilian and international scholars merged structuralist and Keynesian thinking into a new development paradigm in a manifesto entitled 'Ten Theses on Neo-Developmentalism'.[1]

According to its advocates, neo-developmentalism entails a new form of state activism. Its core is a national capitalist development program meant to guide the transition of developing countries away from the Washington Consensus. The main aim of this program of national capitalist development is the achievement of full employment in conditions of price and financial stability. In terms of its intellectual lineage, neo-developmentalism shares a number of characteristics with ISI or 'old' developmentalism.[2] The first is the assumption that the world economy consists primarily of nation states that compete with each other through their firms, an assumption that entails the espousal of varying degrees of economic nationalism. But rather than lead to some variant of ISI, in the case of neo-developmentalism economic nationalism means the adoption of a development strategy that allows domestic firms to seize global economies of scale and technological updating processes, but also innovation policy and an activist trade policy targeted at strong intellectual property regimes and investment opportunities for domestic firms. The second commonality is an understanding of economic development as a structural process. This entails commitment to the mobilization of all available labor resources, increasing productivity in each industry and the steady transfer of finance to high wage and high value added sectors.

On other fronts, the differences with old developmentalism are more marked. Unlike the protectionism and export pessimism of old developmentalists, neo-developmentalists think that since middle-income countries have overcome the infant industry stage, protectionism should be scrapped and the goal of the open economy should be accepted as fundamental. This acceptance is predicated on important interventionist qualifications, however. The goal of the open economy should be complemented by the goal of using industrial policy to increase the share of medium and high value added products and services. This is to be done through industrial policies targeted at firms judged to be able to compete internationally.

This renewed stress on industrial policy comes at a time when new frameworks for rethinking development such as 'new structural economics' (Lin, 2011; Lin and Chang, 2011) are picking up steam in academia and the IFIs (Joon Chang, 2011; Krueger, 2011). Justin Lin, the World Bank's chief economist, recently advocated for a 'new structuralism' that emphasizes the centrality of both market mechanisms and state interventions in development. Lin stresses that there are large gains to be made from state-sponsored industrial upgrading and diversification strategies that build on a country's existing comparative advantage. Other scholars have disputed this approach and argued that industrial policy should target technologically advanced industries in which the country does *not* necessarily have a comparative advantage, albeit without making excessive leaps away. In this market-making approach the state nudges domestic and foreign producers to go faster up the ladder of technological sophistication than the market 'tells' them to, thus fostering comparative advantage over time (Joon Chang, 2009; Wade, 2010).

While there is no manifest consensus among neo-developmentalists on the weight of market-conforming industrial policies versus market-making ones, the Sao Paolo manifesto contributes to this debate by stressing the macroeconomic dimension of industrial policy. Drawing on a mix of post-Keynesian and structuralist thinking in economics, its signatories argue that 'the demand side is where the major growth bottlenecks unfold' and that 'in developing countries there are two additional structural tendencies that limit demand and investment: the tendency of wages to increase at rates below the growth of the productivity, and a structural tendency to overvaluation of the nominal exchange rate' (Sao Paolo Manifesto, 2010). To address the first predicament they advise the adoption of increasing the legal minimum wage, cash transfers to the poor, and a government guarantee to provide employment at a living wage. And to address exchange rate overvaluation and fluctuations in market sentiment, neo-developmentalists suggest that economic development should be financed essentially with domestic savings.

Finally, contrary to the old developmentalist complacency towards inflation, the neo-developmentalists join the orthodox in upholding an unwavering inflation aversion. Yet, unlike the orthodox, neo-developmentalists think that this objective should not come at the cost of high interest rates. The goal of macroeconomic stability found in the Washington Consensus is complemented with a firm commitment to full employment and a more progressive distribution of income. The orthodox faith in untrammelled free trade is replaced with acceptance of capital controls, conservative foreign indebtedness ratios and the accumulation of domestic public savings in order to increase the investment rate.

All these concepts are obviously ideal types. If old developmentalism and the Washington Consensus are the extreme ends of the liberal–statist policy spectrum, neo-developmentalism is somewhere in an uneasy middle. As my analysis shows, Brazilian policy elites certainly accepted enough of the neo-developmentalist theses to fit under the aegis of this term but yielded to enough economic orthodoxy to be closer to the liberal end of the neo-developmetalist spectrum. The use of the adjective 'liberal' in 'liberal neo-developmentalism' could be useful for future scholars who may wish to distinguish Brazil's policy regime from other neo-developmentalist alternatives in the Latin American region and elsewhere.

## ANALYTICAL FRAMEWORK

Departing from the observation that national economies have seen considerable economic policy convergence, a number of political economists have recently shown interest in the transnational spread of socio-economic policies. Arguing against the mainstream view that focuses solely on the global reproduction of policies anchored in economic orthodoxy,[3] some scholars have raised the objection that the transformation of the diffused policies is as important as their reproduction.[4]

According to this approach, policy diffusion is best seen as the interaction of two main processes: the transnational spread of policies ('diffusion' in the narrow sense) and their domestic adaption through 'editing'. By the same token, the policies (and policy paradigms) to be diffused may experience editing, or dramatic reformulations, in terms of their focus, content and meaning. As a result, editing can produce hybrids that violate some of the basic ideas behind some of the diffused policies while closely observing the ideas of others. What enables such departures from the 'original' is that in the process of translation domestic actors do not simply cut-and-paste new economic policies developed in foreign 'labs.' Instead, they reflexively interpret and screen policies before adoption, filtering them through specific institutional contexts, cultures and the local production of economic knowledge.

When applied to the case of Brazil, these two approaches yield different hypotheses about the fate of the Washington Consensus. The mainstream diffusion approach would predict a clear convergence around the goals and instruments of the Consensus. Put simply, Brazil would be heavily constrained by the latest interpretation of the Washington Consensus, with room for relatively marginal local adaptations.

In contrast, the 'thick' diffusion approach would lead one to expect a policy hybrid born from the blending of the Washington Consensus and alternative paradigms. Instead of reproduction with some tinkering at the margins, 'thick' diffusion would suggest that pre-existing domestic policy legacies and/or policy innovations would either be 'grafted' on Washington Consensus policies or displace them altogether. The potential exists for an entire spectrum of 'edits,' ranging from evolutionary versions of the Consensus to changes that are systemic enough to constitute a new policy paradigm. Following Babb (this issue), the paper looks for changes in policy goals as evidence for paradigmatic or 'first order' change and seeks evidence of changes in the instruments used to reach those goals in order to establish whether non-paradigmatic or 'second order' change has occurred. The rest of the paper examines these hypotheses by looking at the two goals associated with the Consensus: macroeconomic stability and open economy.[5]

## MACROECONOMIC ORTHODOXY AND ITS LIMITS

As predicted by the 'thin' diffusion approach, Brazil shows mostly reproduction, with minor domestic editing, of Consensus orthodoxy in the realm of monetary policy. Adopted under Cardoso's *Plan Real* with massive electoral support (Armijo, 2005), the goal of price stability has remained sacrosanct and the instruments for achieving this goal have been in line with the latest international fashions: central bank independence and inflation targeting (Giavazzi *et al*., 2005; Vernengo, 2006, 2008; Barbossa, 2008). In spite of the influx of heterodox economists in the second Lula administration and the heterodox past of president Rousseff, there is no evidence that policy-makers have been considering a Keynesian trade-off between inflation and employment. Neither have they embraced the neo-developmentalist emphasis on full employment as the main goal of economic policy. That said, there have been some departures from orthodoxy during the Lula's second term and at the beginning of Dilma Rousseff's administration.

In his first term, Lula not only maintained the policy course of his predecessor, but further consolidated it by bolstering central bank autonomy[6] and putting a Bank of Boston executive at the helm of the institution (Vernengo, 2006; Taylor, 2009; Amman and Baer, 2002; Gomez-Mera, 2011). In keeping with orthodoxy, and despite high exchange rate volatility, the central bank sees inflation as the only macro variable that it can affect. To this end, the central bank has maintained interest rates hovering around 10 per cent a year, a situation that gives investors a return that could hardly be obtained elsewhere (Amman and Baer, 2009), a policy preference attributed by some to the need to avoid capital flight and stimulate capital inflows (Vernengo, 2006, 2011). Moreover, to control domestic prices, under Lula the central bank maintained the overvaluation of the exchange rate, a policy seen by neo-developmentalists as dampening growth, the international competitiveness of exporters and the workings of industrial policy (Vernengo, 2008, 2011).[7] These policy positions clearly violate the neo-developmentalist preference for a central bank with two mandates: control of inflation and stabilization of the exchange rate at competitive levels (Bresser-Pereira, 2009).

The last economic crisis did not challenge the status quo with regard to the institutions and instruments of monetary policy. Granted, during the 2009 crisis the central bank did not repeat the mistake made after the East Asian crisis, when its increase in interest rates sent the economy into recession. This time it did the opposite, albeit after a four-month delay. Indeed, while the Lula/Rousseff administrations have continued inflation targeting it has been more of a 'soft' target than under Cardoso that signaled more sensitivity to employment growth objectives. Yet expansionary monetary policy in 2009 and then in late 2011 should not be interpreted as a questioning of the Consensus because the cut was small enough to be consistent with inflation targets.[8] Moreover, once the economy stabilized, the central bank reverted back to rate increases, a policy that maintained Brazil's position as the large economy with the highest real interest rates. In turn, this consolidated the high levels of capital inflows that drove the value of the Brazilian real up and reduced the competitiveness of Brazilian exports (ILO, 2011: 10).

The Washington Consensus was further consolidated by the strengthening of a constitutional order that gave the central bank exclusive jurisdiction over monetary policy, thus leaving a conservative inflation-targeting regime built under Cardoso safely ensconced in the country's toolbox of policy instruments. Similarly observant of orthodoxy were measures meant to increase liquidity in the interbank market, like the postponement of increases in reserve requirements or the use of the central bank's rediscount window to assist banks who faced cash shortages. The only remarkable deviance for orthodoxy was the slashing of interest rates in the second half of 2011, a measure adopted following the pressure of a new executive gripped by recession fears and despite the fact that inflation was persistently above the central bank's targets (*Financial Times*, 19 October 2011).

The goal of macroeconomic stability contained from the Washington Consensus informed fiscal policy under Cardoso, Lula and Rousseff alike. During the past decade Brazil maintained fiscal surplus targets ranging between three and four per cent of GDP and stabilized the level of the public external debt. Instead of shrinking the state, Cordoso's post-*dirijiste* cycle actually increased state revenues to one of the highest in the developing world, a trend consolidated under Lula, who went as far as increasing the surplus targets during his first term. During his second term, however, Lula modified this 'golden rule' of fiscal policy by setting surplus targets at a level consistent with a stable ratio of public debt to GDP, while allowing for target reductions in case of needed expansions in public investment (Barbosa, 2010: 7).

It was also after the 2006 policy shift that Lula's government adopted a 'growth acceleration program' that expanded the aggregate demand through state investment in infrastructure, orders for state banks to expand credit and for state-owned enterprises to expand investment (Barbosa and Souza, 2010). As a result, Brazil's investment rate climbed from 15.9 per cent in 2005 to 19 per cent in 2008. Further demand-side measures included constant expansions of the minimum wage, the growth of social programs and a large increase in public sector employment (Morais and Saad-Filho, 2011: 35–7). It is importance to note that this fiscal policy turn was possible only after Lula did away with one of the most important structural constraints bequeathed on it by Cardoso's government: a conditionality agreement with the IMF.

This expansionary, albeit not deficit-based fiscal policy shift came in handy during the crisis, when surplus targets were slashed and a substantial increase in the level of public debt was avoided. The first counter-cyclical policy instrument was the use of income policy and social policy to generate multiplier effects. The federal government maintained its commitment to mandatory real wage increases and opted for the extension of the duration of its woefully underproviding unemployment benefits, two measures that have been advocated by neo-developmentalists.[9] Similarly, Brasilia enhanced the coverage and benefit levels of cash transfers, a measure that injected $30 billion into the economy at a time of falling aggregate demand (ILO, 2011: 5). But while they benefited 20 per cent of the population, at the cost of only 0.026 per cent of GDP and 2.4 per cent of the stimulus package, these measures hardly posed any risks to macroeconomic stability.

The second counter-cyclical strategy was a direct fiscal stimulus animated by strong redistributive concerns. To mop up the unemployment created in the construction sectors, the government used a large chunk of the stimulus package to boost spending on infrastructure and launch a program to build one million affordable housing units. The latter program was executed in a way that involved the private sector but maintained the state's control over the process: a government fund acquired hundreds of thousands of residential units built by the private sector and then sold them directly to poor families at subsidized values and interest rates (Barbosa, 2010: 8). Furthermore, to slow down job losses in manufacturing, the government cut the industrial production tax, a measure that saved close to 60,000 jobs in the car industry alone, a sector known for its impressive multiplier effects.[10]

Such measures are hardly typical of neoliberal crisis packages. But like the enhancement of social programs discussed above, these demand-side measures did not endanger the objective of fiscal stability. Moreover, in relative terms, the value of the direct stimulus was quite small.[11] Most importantly, the federal government avoided deficit spending and chose instead the more modest path of a cut in the primary surplus, which was reduced from 4.2 per cent in the third quarter of 2008 to one per cent a year later (ILO, 2011: 31, 33). In this way Brazil's stimulus package was operated within the limits permitted by the aversion to deficits associated with the Washington Consensus, a fact noted by the three main bond rating agencies who upgraded Brazil's sovereign bonds in 2009 and 2010.

Reassured by conservative monetary policy, mandatory surpluses and expectations of falling public debt, transnational finance capital tolerated a few bolder departures from conservative fiscal policy during the crisis. Among these was Brazil's off-the-books stimulus package camouflaged as credit policy targeted at employment-rich sectors. This demand-side measure was possible only because in violation of the Washington Consensus, the Brazilian government did not privatize federal banks and showed no compunction in using them as development banks.[12] Even before the crisis state banks were the main providers of industrial credit, with private banks keeping most of their operations in government bonds and consumer credit while remaining averse to extending credit to corporates (*The Economist*, 5 August 2010).

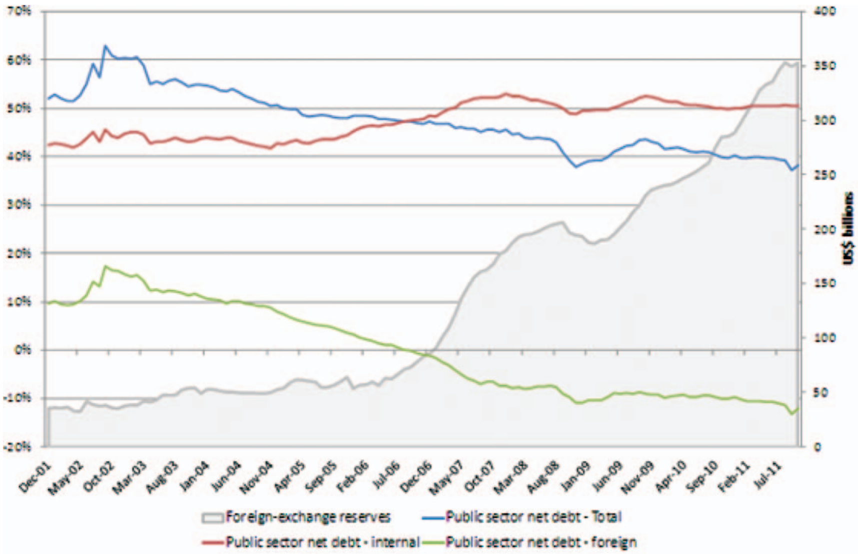
Given this structural characteristic of the financial sector, the Ministry of Finance was able to ask three federal banks (Banco Nacional de Desenvolvimiento Economico e Social or BNDES, Caixa Economica Federal and Banco do Brasil) to keep lending to employment-rich large firms and SMEs at a moment when private banks were weary of lending. To ensure the success of this operation, the Ministry of Finance spent no less than 3.3 per cent of GDP to capitalize the already huge BNDES,[13] so that this bank could increase its volume of credit by no less than 85 per cent by offering loans to firms at half the level of the yield on government bonds. But because this measure was a below-the-line loan to BNDES, it was not considered as part of the stimulus package (ILO, 2011: 48–9).

In addition to these credit lines through state banks, in 2009 the government used public savings to create a sovereign wealth fund with an initial amount of 0.5 per cent of GDP which immediately planned the release of

**Table 1** The Washington Consensus and Liberal neo-Developmentalism compared.

| Augmented Washington Consensus | | Liberal neo-developmentalism | |
|---|---|---|---|
| Goals | Instruments | Goals | Instruments |
| Macro Stability | Control inflation through inflation targeting<br>Market-determined interest rates<br>Market-determined exchange rates and open capital account<br>Independent central bank tasked to control inflation<br>Primary fiscal surplus and use of foreign savings to finance development<br>Broadening the tax base and cuts in the marginal tax rate | Macro stability *but with counter-cyclical intervention during crises* | Control inflation through inflation targeting<br>Market-determined *but preferably moderate* interest rates<br>Market-determined exchange rates but with *selective use of capital controls*<br>Independent central bank tasked to control inflation<br>Primary surplus *plus (a) current account balance (b) the accumulation of domestic public savings to finance investment and (c) a strongly counter-cyclical fiscal policy through the state banks and sovereign wealth funds*<br>Broadening the tax base, cuts in the marginal tax rate *but more progressive income tax and with counter-cyclical reforms of direct and consumption taxes during crises* |

*Sources*: Williamson 2004; Rodrik 2006.




*Source:* Financial Times.

**Figure 1** Debt and foreign reserves in Brazil.

almost half of its money to infrastructure investments (ILO, 2011: 41). In short, the government used 3.8 per cent of GDP in off budget measures to fund carry out counter-cyclical fiscal policy by stealth. Had these measures been on the books, Brazil's fiscal virtue would have been questioned, as the budget deficit would have been in the red.

Finally, Brazil's inching towards neo-developmentalist thinking is evidenced by a steady commitment to the objective of reducing the footprint of foreign capital in the state's balance sheets. As the table below shows, while the share of public debt owed to domestic financial institutions increased during Lula's terms, the debt owed to foreign creditors was dramatically reduced over the same period.

The results of this section can be summarized as follows (italics signify 'editing' to the Washington Consensus orthodoxy).

## SELECTIVE OUTWARD ORIENTATION

During the past two decades Brazil institutionalized a relatively open market economy. Cardoso opened the economic activities to foreign competition by slashing tariffs, duties, quotas and other barriers to trade. Under Lula the preference for the open economy was reinforced through the aggressive promotion of bilateral and multilateral trade agreements in the Americas and beyond (Baer and Aman, 2006). The privatization of regional banks and the lifting of barriers to entry led to a fivefold increase of the participation o foreign banks in the Brazilian banking sector, with Spanish banks leading the wave (de Paula, 2002; Fernando and de Carvalho, 2002; Hernansanz and Sebastian, 2000).

Yet the opening of the economy to international capital was far from comprehensive and was increasingly qualified by neo-developmentalist logic. First, the privatization of state firms was managed by a state-owned development bank (BNDES) whose privatization strategy included bans on privatization with foreign capital in sectors deemed strategic, such as utilities and some commodities (Stallings and Studart, 2006). Also, rather than let the market shape the workings of the financial industry, the state subsidized private sector consolidation with a view to strengthening the international competitiveness of Brazilian-owned banks.[14] Furthermore, Lula's governments acted to limit the market share of foreign capital, whose presence was nearly halved between 2001 and 2006, leaving domestic private and public banks dominant (Fachada, 2008).

Second, Brazil's economic openness has become increasingly limited in the area of the capital account. On this front, the Brazilian government seems to have followed the neo- developmentalist thesis that reliance on external savings and the risk Dutch disease in the context of open capital markets tend to overvalue the exchange rate in developing countries. Moreover, during the 2009 slump, Brasilia slammed capital controls on inflows in order to curb the appreciation of the *real* against the dollar,[15] a measure once loudly rejected by the IFIs (Korinek, 2011) and espoused by heterodox critics of Lula's first term in office (Saad-Filho and Mollo, 2006: 118). In adopting this temporary policy, Brazil enjoyed the support of the IMF (*India Express*, 2011), just as this institution was reconsidering its erstwhile staunch opposition on the issue (Ostry *et al.*, 2011). Yet it important to stress that the Brazilian government carefully distanced itself from the 2011 IMF framework that authorized such controls by arguing against the codification by the IMF of any constraints on their use (*Financial Times*, 15 April 2011).

Brazil's dissent from the Consensus appears even more obvious in its use of what Schrank and Kurtz (2005) have termed 'open economy industrial policy'.[16] John Williamson had put the need to end subsidies on the top of his original list (Williamson, 1990). Despite a theoretical change of position of the World Bank in 2005[17] and more recently with the appointment of Justin Lin (2011) as chief economist, in practice IFI expertise continues to discourage the use of industrial policy (Pack and Sagi, 2006). But the same Williamson wagered immediately after Lula's election that the former union leader's embrace of the main goals of the Washington Consensus would not extend to industrial policy (Williamson, 2003).

Williamson was right. As early as 2003 Lula signaled that rather than thoroughly dismantle the old statist model, his administration had a plan for adapting it to an open economy dominated by dynamic and large nationally-owned enterprises functioning on increasingly competitive and technologically sophisticated terms in conditions of globalization (Izarra, 2007; Doctor, 2009). To this end, his government passed laws and established institutions meant to provide a stable regulatory regime for innovation but also to support technological innovation through the provision of credit disbursed by state development banks acting as *public* venture capitalists. Lula's innovation policy also included tax incentives, subsidies, coordination with universities and virtuous circles among the state and the innovative core of public and private enterprises. Lastly, the government converted trade policy into a central aspect of foreign policy. All of this reflected the kind of neo-structuralist view of development that neo-developmentalists espouse and which by 2011 was seen as the most aggressive in Latin America (Peres, 2011).

But it is even before Lula, industrial policies had important consequences. Shrank and Kurz (2007) estimated that during the mid 2000s around 300 Brazilian firms responsible for about 15 per cent of the country's exports received some kind of state support. In response to challenges in the WTO, the government modified these support schemes but has since resisted calls to abandon them. Similarly, Brazilian exports in segments with medium and high technological content grew sharply beginning in 2002 (Arbix, 2008).

These are important edits of orthodoxy yet one should stress that this is a different subsidy regime than the one used by Brazil under 'old' developmentalism (Goldstein and McGuire, 2004; Marques, 2004; Horlesberger, 2007; Lucena, 2009). While it concedes that markets are excellent allocative mechanisms, the neo-developmentalist logic is that in an open economy state intervention should deemphasize the direct protection of local industries[18] and strengthen the state's capacity to help various industrial sectors to compete internationally. Unlike ISI, Brazil's current liberal approach privileges exporters over producers for the domestic market, subjects the subsidized firms to international competition and the withdrawal of subsidies appears feasible not only because public officials face orthodox fiscal constraints and competing citizen demands, but also because the subsidized firms know that the neo-developmentalist policy is underprovided and can be easily be abandoned by the state under threat from WTO-approved reprisals demanded by competitors (Shrank and Kurz, 2007: 686).

Has Brazil adopted Justin Lin's comparative advantage following industrial policy or the comparative advantage defying one that has been advocated by Ha Joon Chang and Robert Wade? The evidence suggests that so far Brazil pursued both of them. Central to Lula's 2003, 2006 and 2008 industrial policy reforms has been an emphasis on targeting players that already proved themselves on the market. This, it turned out,

**Table 2**

| | | | |
|---|---|---|---|
| Outward orientation | Remove barriers to entry for international financial institutions<br>Trade liberalization with moderate export subsidies and acceptance of inherited comparative advantage, trade structure and trade partners<br>Privatization of state enterprises open to foreign bidders<br>No industrial policy | *Selective* outward orientation | Remove barriers to entry for international financial institutions *but consolidate state banks and subsidize domestic financial market consolidation.*<br>Trade liberalization *with extensive export subsidies and the active transformation of inherited comparative advantage, trade structure and trade partners*<br>*Selective* privatization of state enterprises with *restricted access* to foreign bidders<br>*Selective* industrial policy |

benefited mostly the public sector and internationalized firms. At the same time, Lula's industrial policy aimed higher than what Brazil's competitive advantage was and balanced market-following instruments with targeting only high technology sectors (semi-conductors, software, renewable energy, medicines for specific diseases and bio-technology) that the government judged to have the potential to generate spillovers into growth based on high value added and high wages.

Industrial policy was deepened in the first year of the Rouseff administration with the adoption of the $16 billion Bresil Maior plan. But the new administration added a new goals and instruments. Following into the footsteps of European and Asian developmental states, the Brazilian government began to invest in the massive expansion of vocational and technical education at home. Moreover, in a show of policy originality, it announced that it would attract high-level foreign researchers to make possible 'strategic leap' in Brazilian technical innovation. At the same time, the goal of Bresil Maior was not limited to Lula's industrial upgrading. Indeed, its second goal was to compensate low-tech but high employment sectors like textile and footwear whose competitiveness has been affected by intensifying Chinese competition and a high exchange rate. A further sign that industrial policy may incorporate distributive concerns was the fact that in late 2011, the government slammed a 30 per cent tax on imported cars with less than 65 per cent local content. The measure that harkened back to the ISI era was meant to protect a high employment sector and prompted foreign producers to build factories in Brazil's sheltered market (*The Economist*, 12 January 2012).

Finally, the growing liberalization of trade and investment correlated with an increasingly activist trade policy and more concentrated market structures. Beginning with the second Lula administration, the government's use of trade treaties reflected a clear intention to reduce dependence on traditional OECD markets and commodity exports and cultivate increasing ties with Asia while fostering the diversification of its exports. Also, although liberalization made the Brazilian market more contestable, mergers and acquisitions also made it more concentrated (Amann and Baer, 2002). This did not happen naturally. Instead, it was the result of the interaction between increasing FDI and the adoption of public policies that facilitated the emergence of industrial champions who became the main sources of Brazil's increasing export prowess (Amman and Baer, 2002; Baer, 2009).

## THE COMEBACK OF THE STATE AND ITS AMBIGUITIES

### Selective financial deregulation

During the past decade Brazil's reformers took financial liberalization with more than a grain of salt and created a banking sector marked by low leverage and high reserve requirements. This is important given that financial deregulation was an important pillar in the Washington Consensus (Soederberg, 2001; Arestis, 2004), ranking fifth on Rodrik's reading of the list (Rodrik, 2008). During the 1990s, Brazilian governments seemed at first to agree with these goals, but by the 2000s they turned against it. Soon after the implementation of Plan Real in 1994, the central bank implemented a set of rules whose main effect was to reduce central bank intrusion in the business of banks and to allow the latter to embrace financial innovation and enter into previously forbidden relationships with non-bank financial institutions such as insurance companies (Studart, 2000; Hermann, 2002).

Yet this initial liberalization was half-hearted and short-lived. Rather than take an arm's length approach to the financial sector, the Brazilian state soon began to intervene more forcefully in it. When a liquidity crisis hit the financial sector in the mid 1990s, the Cardoso administration and the central bank intervened not only with massive recapitalizations, but also by introducing more demanding liquidity and solvency requirements than the Basel Agreements did. Moreover, as early as the Tequila crisis, Brazil put in place a bank supervision system that was the strictest in the Americas (Stallings and Studart, 2002: 11).

This highly regulated and modestly indebted financial sector proved to be an important asset during the crisis, when not a single financial institution experienced bankruptcy. Low leverage meant that the balance sheet of Brazilian banks would not trigger the kind of fears about their solvency that wreaked havoc with the banking sectors of many US and European banks. Similarly, high reserve requirements allowed the central bank to inject a pool of liquidity representing no less than 3.3 per cent of GDP when the credit crunch hit with a vengeance in 2009. Finally, the formal registration of all derivatives allowed the government to quickly identify and deal with trouble spots in financial firms (Barbosa, 2010: 5, 10). The result of these measures was that the Brazilian financial sector avoided being sucked into the financial maelstrom originating in the Global North.

## State ownership in strategic sectors

In addition to industrial policy, the Brazilian government directly intervenes in the market by maintaining state control over sectors it deemed strategic for development such as banks, oil, electricity and aerospace. The state owns oil giant *Petrobras*, one of the biggest companies in the world, compared by some experts to the gold standard of the industry, Norway's state-owned oil company, in terms of performance (Mussachio and Francisco Flores-Macias, nd). The state also owns *Electrobras*, the biggest Latin American power utility company and the tenth largest in the world, with operations reaching throughout the Southern Hemisphere and Africa. Finally, the state is an important player in *Embraer*, the airspace company that is now taking on established giants in Europe and North America. The global position of some of these firms would likely stun the critics of state ownership: *Petrobras* and *Vale* have joined the top 100 in the Forbes and UNCTAD rankings of the world's most powerful corporations (Forbes, 2008; UNCTAD, 2009) and continued to expand internationally despite the recession (Cavalho *et al*., 2010). The 2009 crisis seems to have strengthened the commitment of the government to contribute to these processes through the establishment of a sovereign fund whose functions include preferential credit for the internationalization of Brazil's companies (ILO, 2011: 41).

Even in firms where the state owns less than 51 per cent of the stock, its control and intervention remain significant. According to some estimates, in 2011 up to 20 per cent of Brazil's listed companies (i.e. almost half of market capitalization on the stock of exchange) have the government among their top five shareholders, a trend that the economic crisis seems to have made even more pronounced.[19] Leading industrial champions were privatized in a manner that let the state to keep the golden share. For example, *Vale*, the world's biggest miner, is controlled by the state through a state-owned bank and government-related pension funds (Aldrighi and Postali, 2010). The government's increasing drive to use its power vis-à-vis *Vale* management was demonstrated in the dramatic forcing out of the *Vale* chief executive by the Rousseff administration, following his refusal to adjust the company's objectives to the government's socio-economic policy (*Financial Times*, 1 April 2011, 3 April 2011).

The continuing importance of state ownership in Brazilian industry owes to the unorthodox privatization strategy adopted by Cardoso, for whom the label 'neoliberal' is least credible in this policy area. After 2003 Lula went even further and effectively halted the privatization of federal banks and utilities, in explicit violation of the Washington Consensus. Even as the IMF applied pressure, the Lula government accepted only modest concessions, such as the privatization of a few regional banks (Hogan, 2008).

The new Rousseff administration shows even less proclivity for reducing state ownership. In March 2011, after she signed the authorization given to labor unions to sit on the boards of medium and large state-owned companies, president Rouseff thanked labor unions for preventing the privatization of their companies (*Wall Street Journal*, 11 March 2011). According to some observers, under Rousseff, Brazil stands to further consolidate the direct as well as the indirect targeting of state-owned firms in its industrial strategy, with Chinese 'best practices' emerging as explicit sources of inspiration (*Financial Times*, 11 April 2011).

### No deregulation of labor markets

A key pillar of the augmented Washington Consensus (Pastor and Wise, 1999; Berger and Danninger, 2005), labor market deregulation was first advocated by the World Bank and the Inter-American Development Bank (Burki and Perry, 1998; Forteza and Rama, 1999). Soon thereafter it entered the IMF's agenda (Berger and Danninger, 2005). But while Brazilian regulators embraced selected liberalization in other policy areas, they budged very little in the labor market. Despite *ad hoc* flexibilization reforms adopted by the Cardoso administration, overall the labor market remains rigid (Almeida and Carneiro, 2007). Indeed, Brazil resembles Russia in terms of firing and hiring costs, came close to India in terms of the overall rigidity of employment index and has one of the most pro-employee working time regulations in the world.[20]

Contrary to Consensus arguments that fixed-term contracts are ideal employment creation, most of the growth of formal employment seen in Brazil in the past few years has come in the form of the 'rigid' open-ended contracts (de Andrade Baltar *et al.*, 2010). Indeed, Brazil is by far the most rigid of the BRICs in terms of the availability of part-time contracts. By contrast, open-ended contracts reach almost the entire labor force.[21] Formal sector employees are protected not only by an extensive body of legislation (about 900 articles), but also tend to win in court when they decide to go against their employers. However, one important aspect of Brazil's labor market institutions remains liberal: firing regulations. The result of this is a very high labor turnover rate (Gonzanga, 2003).[22]

Similarly, the regulatory environment applied to labor unions is anything but observant of the Washington Consensus preference for market-determined and firm-level labor–capital relations. Regulations protecting unions are imbedded in the very federal constitution. Sector-level collective bargaining agreements have a very wide degree of coverage in the formal sector. Unions benefit from mandatory fees taken off the employees' paycheck and union membership entails a significant union wage effect (Menezes-Filho *et al.*, 2005). Moreover, rather than foster the fragmentation of unions, Lula's administration encouraged their centralization around large and multi-sector union confederations close to the Workers' Party. To this end, the government established a peak-level forum for union–government–capital relations. The deliberations of this body led to a proposal for a constitutional amendment to further expand the rights of workers and of their union representatives as well as to the establishment of a Northern tripartite neo-corporatist industrial relations body (Radermacher, 2007; Sluyter-Beltrão, 2010).[23]

Rather than arrest these trends, the Rousseff administration seems to have been even more supportive of organized labor. During the electoral campaign, Rousseff ruled out changes in Brazil's strict labor laws

(*Financial Times*, 14 November 2010) and the labor minister even announced his preference for making legislation more onerous for employers ('Brazil's Labor Laws: Employer, Beware', *The Economist*, 12 March 2011). Moreover, the Rousseff government authorized labor union representation on the boards of directors of the country's state-owned enterprises, whose high profile in the national economy is hard to ignore (*Wall Street Journal*, 11 March 2011). While Brazil's developmentalist accumulation strategy during the postwar years was carried out through a state–business alliance that enfeebled labor (Evans, 1979, 1995; Kohli, 2004), the country's current neo-developmentalist course seems to have strengthened it instead.

## Reinventing redistribution

Even by Latin America's low standards, Brazil remains a country marked by mediocre human development indicators (Pribble, 2011; Gacitua Mario *et al*., 2008), the result of decades of poorly redistributive policies under ISI (Collier and Collier, 1991). However, between 2000 and 2008, income inequality and poverty indicators began to improve dramatically.[24] This change came as a result of the adoption of a mix of income redistribution policies that push the 'new developmental welfare state' (Riesco, 2007) in a more progressive direction: the conditional cash transfer (CCTs) programs promoted by the proponents of the Washington Consensus and the sharp increases in Brazil's minimum wage above inflation levels, a measure anchored in demand-side Keynesian economics.

Conditional social welfare payments targeted at the most extreme forms of social exclusion were an important marker of the Washington Consensus social policy. In key social policy reports IFIs stressed empowering the poorest groups to help themselves through microcredit and conditional cash transfer programs. The logic behind this was an improvement of the supply-side of the economy, as CCTs were seen as means to subsidize the incentives of the labor force to change behaviors detrimental to one's health, job market skills and labor market productivity.[25] Despite the success of developing countries as different as Costa Rica and Taiwan in developing broad-based social policies (Kwon and Halliday, 2007; Aspalter, 2006), the World Bank and IADB have remained hostile to these approaches and maintain a narrow emphasis on targeted benefits (Barrientos and Hulme, 2009).

During the 2000s IFIs showcased Brazil as a model for this version of this version of the anti-poverty agenda (Hall, 2007; Ravaillon, 2011).[26] Initiated under Cardoso and continued by Lula, these programs began to target the most vulnerable citizens and were conditional on undertaking health checks and regular attendance of school for children. Lula dramatically increased their coverage so that by the end of the 2000s they reached a quarter of the population, lifted 20 million people out of abject poverty and nearly halved the proportion of people living below the total poverty line.

Though these are spectacular figures they should be understood in context. Unlike in more developed welfare states, social programs in Brazil do not pose significant trade-offs for fiscal policy and do not stand to be a 'gateway drug' for universal programs. The biggest of them, *Bolsa Familia*, costs 0.4 per cent of GDP and even its strong advocates see universality as an alternative to be avoided due to its high costs ('Favelous', *The Economist*, 17 March 2011). The very small payments may go a long way in the countryside, but in cities they are not high enough to deter child labor and truancy.[27] CCTs are there to stay. Their expansion won Lula the 2006 elections (Hall, 2008) and even today they remain one of the few objects of consensus between the left and the right of the political spectrum.

While Brazilian CCTs represent only a modestly progressive interpretation of the Washington Consensus, other social policies are more marked departures from it. Most prominent among these is the policy of increasing the minimum wage above the inflation rate adopted by Lula and continued by Rousseff, a measure that decrease inequality a lot more than CCTs did (Soares *et al.*, 2007). Whatever its macroeconomic effects, it is important to stress that this neo-developmetalist measure was adopted primarily to combat poverty and inequality in the formal sector. The evidence for this is the continuing use of wage increases after Brazil's economic growth hit unprecedented rates in 2010.

The neoclassical literature connects increases in the minimum wage above the inflation rate with job losses and, in what would be a violation of Washington Consensus monetary policy, to inflationary pressures (Neumark and Wascher, 2008). Moreover, they are said not to have effects on poverty rates overall (Neumark and Wascher, 2008). By contrast, post-Keynesian economists and their neo-developmentalist followers take a different view. They have argued that by reducing wage inequality through minimum wage increases, there is an increase in the total quantity of spending, with virtuous consequences for employment, fiscal revenue and the structural tendency of markets with an oversupply of labor to underpay workers (Lavoie, 1996; Sao Paolo Manifesto, 2010).

In this debate Brazil seems to have taken the neo-developmentalists view. Observers noted that the real recovery of the value of the minimum wage began in 2005, when the Lula government made an explicit commitment to promote the growth of the real value of the minimum wage as a means to redistribute income and reduce of poverty (de Andrade Baltar *et al.*, 2010: 26). The real value of the minimum wage was increased several times, with the bottom quintile of the labor force seeing its incomes rise by 38 per cent between 2003 and 2008 (de Andrade Baltar *et al.*, 2010: 26). Minimum wage increases continued during the Great Recession, during

**Table 3**

| | | | |
|---|---|---|---|
| Free-market capitalism | Secure property rights<br>Privatization of state enterprises<br>Partial privatization of some public services<br>Financial deregulation<br>Labor market deregulation<br>Conditional cash transfers to the poor | Free-market capitalism *enabled by an activist state and constrained by development objectives* | Secure property rights<br>Privatization of state enterprises *but with state control over industrial champions and with the exclusion from privatization of federal banks, utilities and strategic commodities.*<br>No privatization of public services<br>*Moderate* financial deregulation<br>*No* labor market deregulation *and consolidation of corporatist institutions*<br>Conditional cash transfers to the poor *plus expansionary minimum income policy* |

which they were proven to have had an important counter-cyclical effect.[28] The Rousseff government raised the minimum wage yet again (*Financial Times*, 5 January 2011; Filho and Morais, 2012) and planned to embed this policy preference in federal-level norms. It is equally important to point out that contrary to neoclassical pessimism, minimum wage increases occurred against the background of an unprecedented increase in formal employment (Lemos, 2005; ILO, 2011).

If Brazilian CCTs represent a local adaptation of the Washington Consensus and minimum wage policy is a break from it, tax policy is a more ambiguous issue. During the 1990s the tax base was broadened, fiscal reliance on regressive consumption and production taxes increased and marginal income taxes were cut progressively.[29] New taxes were introduced and existing ones were increased, with the greatest increases affecting social security contributions (Lora, 2007; Melo *et al.*, 2010). The result has been a tax revenue level which, at 35 per cent of GDP, is comparable to some OECD countries and is well above the average middle-income economy, including the other BRICs (ILO, 2011: 9–10).

The crisis seems to have challenged the tax status, quo, however. While the tax level did not go down, the government avoided using supply-side tax economics to reduce the tax burden on the rich, as the Consensus suggests. Instead, it made the income tax more progressive through the introduction of new lower rates for lower income brackets. Similarly, there was a reduction of consumption taxes on local manufactures, rather than at the investor class (ILO, 2011). Yet despite this considerable expansion of the tax burden, the tax changes that have been effectively implemented have not been grounded in redistributive considerations (Melo *et al.*, 2010: 19), a situation that the Rousseff government does not plan to remedy ('Brazil's Tax Reform? Not Soon', *Latin Business Chronicle*, 21 January 2011). This is despite the fact that the regressive nature of the Brazilian tax system as a whole means that the rich pay much less in taxes than the poor.[30] This failure to collect more in tax from the well-off is perhaps one of the most striking lines of continuity between Brazil's adaptation of both 'new' and 'old' developmentalism.[31]

## CONCLUSIONS

Brazil is an important pillar of the global economy that offers a plausible alternative to neoliberalism. After a turn to a selected set of Washington Consensus policies and ideas during the Cardoso administration, during the past decade this country built an incipient policy regime that recovered the state as a focal point in development, while staying away from the more heavy-handed and exclusionary aspects of 'old' developmentalism. This study set out to find whether the Consensus has been adopted with minor edits, or whether Brazil's policy regime constitutes a different paradigm. The main finding is that while this country has more than an 'eroded' Washington Consensus, it nevertheless did not adopt a full-blown neo-developmentalist paradigm. Instead, during the past decade, and especially since Lula's second term, Brazilian governments crafted a hybrid paradigm in which some of the policy content of the Washington Consensus has been preserved intact, while some has been gutted and replaced with neo-developmentalist goals and policy instruments. To capture the hybridity of this policy regime that pursues growth with redistribution through 'inclusionary state activism without statism' (Arbix *et al.*, 2010), while avoiding the wrath of transnational finance capital, I dubbed Brazil a case of liberal neo-developmentalism.

What are the constitutive elements of this policy regime? On the macroeconomic front, the goal of macroeconomic discipline emphasized by the Washington Consensus has been maintained. Commitment to this goal has been particularly steady in monetary policy, where inflation-targeting and central bank independence remain central to Brazil's macroeconomic policy regime. By contrast, the goal of full employment that has been so central to neo-developmentalism has not been brought on a par with macroeconomic discipline. Nevertheless, since 2006 fiscal policy has been edited with a complex array of policies aimed at expanding investment and aggregate demand, an important concern in neo-developmentalist macroeconomics.

Moreover, during the economic crisis, the government used its control over federal public banks to run an off-the-books stimulus camouflaged as credit policy alongside an official stimulus package in order to help close the output gap. While signaling fiscal virtue in its official accounts, the government in Brasilia had no hesitation to use its very powerful public financial institutions to unlock the devices of the credit system blocked by the financial crisis that hit the country in 2009. In so doing, the government showed that macroeconomic stability is not the only goal and that kick-starting demand in a slump, albeit surreptitiously, is just as important. Finally, Brazil reduced its reliance on foreign savings, as if enacting the neo-developmentalist argument that 'growth strategies that rely on foreign savings cause financial fragility; get governments caught up in regressive 'confidence building' games; and, all too often end with a balance of payments or currency crisis' (Sao Paolo Manifesto, 2010).

Brazil's compromise between the Washington Consensus and neo-developmentalism becomes just as apparent in other policy areas as well. Thus, rather than roll back its interventions in leading sectors of the economy, the state consolidated its presence not only as a regulator, but also as owner and investor. Particularly interesting in this regard is the building of institutional and financial infrastructures able to break the bottlenecks of innovation and serve the region's most ambitious industrial policy. In general this policy has maintained the outward orientation demanded by the Consensus, yet these interventions were not always market-following and private sector-based, a tendency that seems to be strengthened under the Rousseff administration. The imperative of deregulation has been adopted quite unevenly with regard to finance, yet not at all with regard to labor market institutions, where close labor-left party relations augur well for more inclusionary socio-economic policies. And while conditional cash transfers can be accommodated by a progressive version of the Washington Consensus, Brazil's constant increases in the minimum wage and the use of state-owned and public–private firms to enable the expansion of welfare and employment programs better fit the commands of neo-developmentalism.

Future scholars could use these insights to undertake a comparative historical analysis of the mechanisms through which Brazil's 'old' developmentalism morphed into the liberal developmentalism after having survived the crossing of various economic deserts. This Latin American country's previous experience with developmentalism during the first three postwar decades led to a relatively successful industrialization drive that delivered high growth, but came at the cost of enormous foreign debt, mounting inequality, recurrent fiscal and balance-of-payment crises and repressive politics. That none of these tendencies are present in its current version of neo-developmentalism is not a small feat.

So far Brazil's liberal neo-developmentalism has been a successful policy regime, but its virtuous circles are hardly set in stone. Much of the spectacular growth has come from demand-side fiscal policies adopted during the crisis and from commodities exports. Therefore the sustainability of growth hinges on external demand. By the end of 2011, Brazil's Asian-rate growth rates fell sharply, as demand in Brazil's trading partners began to decelerate. Although they grew, investment rates remain lower than expected and outside some pockets of excellence that benefit from industrial policy, the external competitiveness of Brazil's manufacturing is hurt by an overvalued currency. The open economy benefited Brazil's exports but its other face is the steamrolling of some traditional sectors by Chinese competition. Despite recent progress, Brazil's educational and physical infrastructures need massive investment to be up to par with that of competitors. Granted, the Brazilian government has good reasons to feel confident that booming foreign investment in 2010–2011 suggests that international capital buys into the liberal neo-developmentalist policy regime. That may be true for FDI, but events in Europe suggest that no policy regime is immune against the extreme volatility of transnational finance capital.

Such threats are hardly negligible. But what remains is that relatively speaking the last decade has been perhaps Brazil's best for the greatest number of its citizens. How long will endure the neo-developmentalist alliance bringing together the state, a sizable fraction of the domestic capitalist class, popular organizations, the informal and the rural sector workers? But, tempting as it is, predictions should be resisted. As some have noted (Blyth, 2006; Taleb and Blyth, 2011), any political and economic status quo – and this includes Brazil's liberal neo-developmentalism – can be visited by the 'black swans' that make prediction in social science an exceedingly risky affair.

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## NOTES

1 The Sao Paolo meeting of a group of economists self-describes as 'sharing a Keyensian and structuralist development economics approach', was financed by the Ford Foundation and organized by the structuralist development macroeconomics center of the Sao Paolo School of Economics of the Getulio Vargas Foundation. The meeting resulted in the adoption of a manifesto called 'Ten Theses on New Developmentalism' and was signed by a long list of Brazilian and international luminaries including Phillip Arestis, Luiz Carlos Bresser-Pereira, Ha-Joon Chang, Paul Davidson, James Galbraith, Luiz Fernando de Paula, Adam Przeworski, Osvaldo Sunkel and Robert Wade. The theses will be heretofore referred to as the Sao Paolo Manifesto.

2 For the application of the concept of 'old' or ISI developmentalism to Brazil see Leff (1968), Bergsman (1970), Fishlow (1972), Suzigan (1976), Cardoso and Faletto (1979), Evans (1979), Sikkink (1991), Schneider (1999, 2009) and Kohli (2004).

3 Select examples from this 'thin' diffusion literature include Mukand and Rodrik (2002), Elkins and Simmons (2004), Elkins *et al*. (2006), Levi-Faur and Jordana (2005), Weyland (2006), Radaelli (2005), Swank (2008), Mesenguer and Gilardi (2009), Gilardi *et al*. (2010), Simmons *et al*. (2006, 2007, 2008) and Gilardi (2008, 2010).

4 Representative works associated with the 'thick' diffusion tradition include Sevon (1996), Sahlin-Andersson (1996), Djelic (2006), Campbell and Pedersen (2001), Campbell (2004, Chapter 3), Sahlin-Andersson and Engwall (2002), Djelic and Sahlin-Andersson (2006), Pedersen and Campbell (2006) and Campbell (2009).

5 Free market capitalism was the third objective under the 'original' Washington Consensus, yet in its 'augmented' version the emphasis on it was lost due to the acceptance of the argument that institutions matter because economic life is riveted by cases of market failure (Rodrik, 2006; Williamson, 2004).

6 Under Lula the central bank governor remained de jure subordinate to the president but was no longer formally subordinate to the finance minister and his post was given cabinet status. Also, Lula tried to shield the central bank against congressional pressures as much as possible (Taylor, 2009: 504, 508).

7 I thank an anonymous reviewer for highlighting the importance of exchange rate management.

8 The central bank reduced the policy rate from 13.75 per cent to 8.75 per cent between January and September 2009 (ILO, 2011: 3).

9 Fewer than seven per cent of Brazil's unemployed received benefits in 2009 (ILO, 2011).

10 According to the Instituto de Pesquisa Economica Aplicada (IPEA), each R$ 1.00 spent on cars has a multiplier effect of R$ 3.76 on aggregate output (cited in ILO, 2011: 5).

11 At 1.2 per cent of GDP, the value of Brazil's fiscal stimulus was, together with Russia's, the lowest in the G20. This figure is in sharp contrast to China's 13 per cent or India's 4.2 per cent stimulus and was only a portion of the stimulus spending of the notoriously thrifty Germany (four per cent).

12 In sharp contrast to Mexico and Eastern Europe, where deregulation and privatization led to a near complete takeover of domestic banks by foreign banks (Ban, 2011; Gabor, 2010; Aslund, 2010), what Arbix *et al.* (2010: 14) call 'the backbone of Brazilian banking' (Banco do Brasil, Caixa Economica Federal, Banco Central and BNDES) remains state-owned in Brazil. *Banco do Brasil* and *Caixa Econômica Federal* are not only the largest and most profitable banks in the country, but are also among the biggest in the world. Also, their reform was carried out so as not to impede the government's freedom to use them to advance public policy goals such as the provision of long-term project finance, housing and infrastructure finance and development finance (Stallings and Studart, 2006).

13 At $60 billion the lending of the state-owned BNDES now far exceeds that of the World Bank (Studart and Stallings, 2006; *The Economist*, 5 August 2010).

14 For example, acquiring banks received from the central bank lines of credit at below market prices while acquired banks received tax write-offs (Baer and Nazmi, 2000).

15 In Brazil the adoption of capital controls came in the form of increasing taxes on foreign purchases of bonds and stocks from two to six per cent between November 2009 and October 2010.

16 This paper conceives of industrial policy as 'any type of selective government intervention or policy that attempts to alter the structure of production in favor of sectors that are expected to offer better prospects for economic growth in a way that would not occur in the absence of such intervention in the market equilibrium' (Pack and Sagi, 2006).

17 More specifically, the World Bank's *Learning from Reform* (2005: 11) report specifically stated that the objective of outward orientation can be achieved not only through steamrolling tariffs but also through export subsidies.

18 Brazil's trade openness has been only slightly reversed in the Rousseff administration, with the introduction of a 30 per cent tariff on car imports in 2011.

19 This estimate was made by a private sector brokerage firm (Itau Securities) cited in *Financial Times*, 11 April 2011.

20 This assessment is based on de Barros and Corseuil (2004), de Barros *et al.* (2009), Camargo and Urani (1996) and Gonzaga *et al.* (2003).

21 In 2008, out of nearly 40 million labor contracts, 30.5 million were open-ended, 6.8 million were statutory and only 680,000 (or 1.4 per cent of the total) were fixed-term (de Andrade Baltar *et al.*, 2010: 19).

22 For example, in 2009 the Brazilian formal sector (33 million employees) saw 15 million dismissals and 16 million new hires (de Andrade Baltar *et al.*, 2010: 20).

23 See Radermacher and Meleliro (2007), *Folha de Sao Paolo* (15 March 2005) Krein, José Dari: «A Experiência Brasileira de Reforma Trabalhista e Sindical», texto

base para el trabajo presentado en el seminario «Reform of Social Legislation in Developingand Transition Countries. Experiences and Challenges», OIT/Friedrich-Ebert-Stiftung, Berlín, 2006, mimeo.

24 The Gini index fell from 0.60 to 0.54, the number of people living in poor households fell from 58 million to 41 million and real household income per capita grew from 540 to 660 dollars. Brazil's poorest workers saw their wages increase by 38 per cent between 2003 and 2008 (de Andrade Baltar *et al*., 2010: 25–6).

25 See the World Bank's Thirteenth World Development Report (1990) and its 2001 *Attacking Poverty.* For IADB strategies for poverty reduction see Sorensen (2009).

26 Brazil received 2.6 billion dollars to fund *Bolsa Familia* from the World Bank and the Inter-American Development Bank (Hall, 2007: 159).

27 In 2008 the Bolsa Familia payments ranged from $18 to $172.00 per month depending on family income and number of children.

28 The minimum wage increased by 8.8 per cent in 2010.

29 The government lowered top personal marginal rates from 60 per cent in 1985, to 50 per cent in 1987, 25 per cent in 1989, 35 per cent in 1995, 25 per cent in 1997 and 27.5 per cent in 1999.

30 See Melo *et al*. (2010) and Beghin (2008).

31 For a review of the importance of tax failures in Brazil's 'old' developmentalism see Kohli (2004).

## NOTES ON CONTRIBUTOR

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