

Towards a new model of state-led development in Brazil (?)¹

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The paper investigates recent changes and evolutions of the state-led developmental approach in Brazil. Changes since the Millennium, documented among others by Draibe (2007), Wylde (2012), Kerstenetzky (2014) and Amann – Barrientos (2014) have resulted in a new policy approach, which might serve with some lessons for other developing countries, as well as for the revision of the classic developmental state concept. Using institutional and political economy approach to analyse the evolution of the Brazilian developmental state we argue that under the Lula administration (2003-2010) a special economic policy mix has emerged, which though maintaining continuities to both the old Brazilian developmental state and neoliberal reform period, can be regarded as a new model of state-led development in Brazil.

Keywords: developmental state, Brazil, new developmentalism, political economy

JEL codes: I38, O10, O54

Intellectual debate on the role of the state in development and state interventionism has been revitalized by new challenges in the twenty-first century in general and experiences and consequences of the recent financial and economic crisis of 2007-9 in particular. We aim to contribute to this debate by looking at recent development experiences of Brazil, and we argue that the analysis of its new developmentalist approach might serve with some useful lessons for other countries as well as for the revision of role of state in development.

¹ This is a revised and edited version of the paper presented at the ‘Developmental States beyond East Asia’ Workshop at Newcastle University, 5 June 2015 and was supported by the 2014-16 postdoctoral scholarship of the Hungarian Academy of Sciences and by the OTKA project No. 112069 “Varieties of Capitalism – Varieties of Direct Economic Intervention of the State”.

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Our main research question concerns whether the concept of developmental state (DS) can be adapted to the fundamentally altered internal and external environment of the states in the 21st century. For the revision of the classic DS concept two main lines of argumentation could be straightforward: first taking into account latest theoretical results (mainly of new development theories, new institutional and political economics) and applying the new paradigm of development important theoretical insights could be formulated. A second option is to look at the experiences of countries (groups of countries) within given time periods in which they achieved certain development ‘success’(a set of favourable development outcomes), as according to Fosu (2013) these can serve as ‘role models’ of development and serve with useful lessons for other countries (that share similar characteristics), while also contributing to revision of existing theories or formulation of new ones.

In this paper we opt for this second option and analyse the evolution and changes of the developmental state model in Brazil. We critically investigate recent changes and processes in Brazil, while highlighting main similarities (continuities) and differences (changes) to the old Brazilian developmental state approach, as well as to the neoliberal period. One could argue that since the Millennium, and especially since the 2007-9 crisis not enough time has passed for a historical perspective, but in the light of 15 (or even 5-8 years), some trends can already be seen and based on these some preliminary conclusions might be formulated.

By analysing recent trends and the new emerging policy model in Brazil our aim is to search for possible generalizations on the level of stylized facts regarding the changing role of the state in development, more concretely to draw some conclusions regarding the new concept of developmental state in the twenty-first century.

The paper is in five parts: first we provide some introductory theoretical considerations on the developmental regime concept providing the structural framework of thinking about the twenty-first century’s developmental states. Part two provides the context and the historical roots of the Brazilian developmental state, to help to understand the cyclicity of the changing role of state in development in Brazil. The third and main part of the paper turns to recent evolutions in Brazil and looks at the cornerstones of the new development model emerging since the Millennium. In the fourth part we present the debate regarding recent changes in Brazilian political economy and argue that it can be considered as a new state-led development model, while doubts remain whether it can be regarded as a developmental regime (overarching policy cycles). Finally we conclude.

Introductory notes: the concept of developmental regimes

The need to move towards a new concept of developmental state can be verified on the one hand with the failure of the classic paradigm of DS (Woo-Cumings, 1999; Beeson, 2004; Benczes, 2002; Ricz, 2015), and on the other hand with the emergence of new challenges in the twenty-first century, that result in a new context (possibilities and constraints) for the governments in power to define and realise their main economic and social development goals.

Already in the eve of the new Millennium, but even more so at the time of the writing of this paper (2015) it constitutes to be a common knowledge among economists³, that the classical model of DS has failed. It has failed in its original region (East Asia), as marked at the latest by the Asian financial crisis in 1997-99, and once successful East Asian developmental states underwent significant changes since then⁴. The classic DS model has also failed in other regions of the world, as due to its dependence on specific initial conditions and a unique context, it could not be successfully emulated by other countries in other regions of the world nor in other times as its classical “golden age” (mainly the middle half of the last century).

Among the new challenges of the twenty-first century Williams (2014) highlights four pivotal changes that urge the revision of the old development state concept: restructuring of the world economy (shift to knowledge and service sectors, dominance of bit-driven or new economy), changing international and domestic political processes (expanded embeddedness and democratization); changes in the epistemic interpretations of development (human capabilities approach according to Amartya Sen (1999)) and last but not least environmental issues (ecological constraints to development and climate change). We wish to add a further challenge to this list, the challenge posed by financial globalization and the long-lasting effects of financial and economic crises, as these basically limit (or alter) the room for manoeuvre of individual states in financial terms and in raising revenues in traditional ways in the globalized world economy in the twenty-first century.

Notwithstanding since the most recent global financial and economic crisis a new renaissance of developmental state literature can be observed. This new strand of works while building on

³ Though not among politicians, as their seems to emerge a feeling of nostalgia and one can reveal some recent trials to emulate East Asian successes. These experiments and statements are rather based on political considerations and ‘naïve’ believes, than serious economic argumentations or facts.

⁴ For a recent discussion on the existence of a new DS model in Asia see e.g. MacIntyre, Pempel and Ravenhill (2008), Hua – Hu (2015), Pempel – Tsukenawa (2015), Wang (2011).

the intellectual heritage of the classic DS literature, departs from it in several aspects (e.g. in its geographical focus, in its more comprehensive or overarching approach). It is out of the scope of this paper to go into detail of this newly emerging developmental state approach (for this see Williams, 2014; Wade, 2014; Routley, 2014), we aim however to provide a structural framework for the new approach, which can serve as a fresh attempt for analysing developmental states in the twenty-first century. For identifying main layers of this new developmental state approach we rely on the concept of developmental regime (DR) originally worked out by Pempel (1998, 1999), and later applied by Wylde (2012) on Latin America (mainly Brazil and Argentina) and by Booth (2015a,b) focusing on African developmental states.

These authors speak about developmental *regimes* and not *states*. This differentiation is made consciously to depart from the very long time perspective of the classical DS literature (which could be evaluated ex post, only after 20-30, or even 50 years), but also to avoid the short term perspective of developmental governments (mainly related to strong leaders) and not overarching political cycles. According to Booth (2015b:3) *“the word ‘regime’ is used deliberately, to allow a focus on issues lying somewhere between long term of state formation and the short term of particular government administrations”*. Thus we can see that the above mentioned authors do not use the word regime, as in the literature of international relations theories or in new political economy theories. Without going into details of epistemic debates on regimes or states, in this paper we will use the terms developmental states and regimes as synonyms, and always explicitly signal whether we speak about the old, classic paradigm of DS or the new emerging concept of DS also called DR.

Both Pempel (1998, 1999) and Booth (2015a,b) speak about a tripod system of developmental regime. The main difference between them, is that while the original DR concept (of Pempel) concentrates more on structures and processes, its later version (by Booth) is more concerned with the outcomes, results of the processes. To illustrate this, we match the appropriate layers of the two concepts side by side in the following table.

Table 1: Three layers in the new concept of developmental regimes

According to Pempel (1998, 1999)	According to Booth (2015a,b)
1. socio-economic alliances	1. character of political settlements
2. political-economic institutions	2. quality of policy-making process
3. public policy profiles	3. content of relevant policies

The first layer is the *socio-economic alliances* referring to long-term historical alliances between the state and certain sections of the society, resulting in tacit agreement (often called *social contract or pact*) among the most powerful groups of the society. As a result of institutional and non-institutional factors (such as the power distributions among major groups of the society, traditionally among national elites) specific types of social-economic alliances can be formed. Exclusion of labour and in more general terms of most parts of the society was typical feature of the classic developmental states, while their inclusion is one of the most striking characteristic of the new approach.

Booth (2015a) speaks about *political settlements*, which can be viewed as “the outcome of struggles and ensuing arrangements among powerful elites” (Parks – Cole, 2010:5 cited by Booth, 2015a:33). With the democratization processes (for example in Latin America since the 1980s) the power distribution among major elements of a national elite is (in an ideal case) also influenced by major parts of the society forming a wider electoral base (as it will be illustrated in the Brazilian case), and the way is straightforward that new political settlements and new social contracts resulting from new socio-economic alliances (containing the most powerful groups of the society) go hand in hand.

The second layer is the level of *political-economic institutions* in the original DR concept, Both formal and informal institutions of the state and society are seen as the second leg of any DR. Three main types are differentiated: government institutions, economic institutions and those that connect government, economy and society. The institutionalisation of a developmental regime is essential to ensure longevity of the development-oriented approach, thus to go beyond any single political administration. However in the later version of the DR concept Booth (2015a,b) emphasizes the *quality of the policy-making process*, the way how policies are designed and implemented, which in turn can be seen as resulting from the (formal and informal) institutional setting. In Booth’s (2015a) argumentation instead of searching for the ‘*right*’ political and economic institutions and their functioning, the process of policy-making is crucial for any to be developmental state. To put it short the way how policies are constructed is more important, than the institutional settings behind (or to put it differently, different institutional settings can lead to similar qualities in the policy-making process), however as noted earlier the institutionalization of the new development-oriented approach (or the specific public policy mix and its new developmentalist bias) is a key ingredient of any DR to ensure its maintenance on the medium or longer term.

The final leg of the tripod structure of DR is made up of public policy profiles, the content of relevant policies. Public policies necessarily deliver benefits to the supporters of the developmental regime, as in the short run these are manifestations of the power structure, while on the longer run they reinforce, modify or stabilize institutional arrangements and/or coalitional alliances (Pempel, 1998:27). Thus public policies, and especially developmental bias in these policies play a critical role in Pempel's approach (he even compares these to the 'social facts' of Durkheim, and or the Gramscian 'hegemonic projects'). Booth (2015a:33) also highlights the role of economic and social policies, and the resulting bias in the development policy mix according to the political settlements and the policy-making process.

Wylde (2012:79) puts it even more concretely as he argues that "*public policies can become more than just policies, as they become interwoven within and characteristic of the state-society, state-market and state-international relationships*". Thus public policy profile and the bias of the public policy mix lie at the heart of any developmental regime.

To sum up we highlight that there is a complex interrelationship between the three layers of the new DR concept, and the causality runs from the level of socio-economic alliances, or political settlements towards public policies. Wylde (2012:77) puts it however the other way around: "*the prevailing public policy mix sustains and reinforces the dominant socio-economic power base as well as particular set of political and economic institutions*". So we see there is a dynamic interrelation between the three layers. Finally this leads us to remind the dynamic model of economic and political institutions determining long term economic growth constructed by Acemoglu – Johnson – Robinson (2005) (AJR) within the framework of new institutional economics. It is straightforward to see how this new DR concept fits into this institutional approach. It can even be regarded as an application of the AJR model on developmental states.

It could be argued that until now we have been extensive on a structure of analysis for regimes. But what makes these regimes developmental? It is obviously a bias toward (a newly defined) development-oriented approach and an active (but also reconsidered) role for the state in promoting widely defined development (instead of focusing exclusively on economic growth). We hope it will become more obvious after the Brazilian case study, what the application of the new paradigm of development means for a new DS approach and the new developmentalist bias in public policies. Still with an introductory aim we sum up some theoretical considerations according to Pempel (199:157, see also Wylde, 2012:81). There are

at least four characteristics for a state to become a successful developmental regime: 1. it must create and build upon a social-economic coalition that commands more politically relevant resources than the opponents' coalitions; 2. it must be able to articulate (define and communicate) the central issue(s) in politics and determine the content of the national (development) agenda; 3. it must present a legitimate ideology⁵ that plausibly presents the interests of the members of its socio-economic alliance as common or general interests of the economy and society (the country) as a whole; 4. finally, it must be able to reward its supporters with long-term benefits, instead of delivering only short-term profits to them. Wylde (2012:81) argues that this new concept of DR differs substantially from Evans (1995) embedded autonomy theory, as this latter emphasizes the links predominantly with industrial capital, and much less with the society in general. The new developmental state approach is thus basically different from the old theories regarding the state – society relations. (Differences could be captured regarding state – market and national – international relations as well, however it is out of the scope of this theoretical introduction to also analyse these dimensions. Some changes regarding these will be apparent in the analysis of the new Brazilian development model.)

In the following sections we aim to illustrate how the above presented challenges have influenced the emerging new developmental state model in Brazil and have resulted in changes (while also maintaining some continuities) to the old development-oriented approach. For this we aim to apply the above sketched structure to present the new Brazilian development model and aim to say something about the new socio-economic alliances, changes in the policy-making process and the content (or bias) of relevant public policies. Though some changes date back to the late 1980s, early 1990s, the contours of the new developmental regime have been manifested since the Millennium, more concretely since the first Lula administration (2003).

The emergence of a New Developmental State in Brazil: context and historical roots

In this section we shortly introduce some aspects of the specific context in which the new Brazilian development model emerged. First we present recent regional political changes, the

⁵ This is the way how Pempel (1999:157) puts it, however I am convinced, that the twenty-first century's new developmental state concept should go beyond ideological debate and be rooted in the new development paradigm (based on newest results in development economic theories), thus it would be better to speak about new theoretical framework, new way of thinking.

the rise of the new left in Latin America, then we refer to historical roots of developmentalism in Brazil and mention the cyclicity of state activism during the last century.

The regional political context: “turn to the left” in Latin America

Before explicitly turning to analyse recent processes in Brazil, it is useful to embed these changes in a wider Latin American context. It is out of the scope of this paper to deeply analyse economic, social or political trends in Latin America. For the sake of our analysis it is enough to note that state-led and market-oriented development models have been altering in Latin America (as in Brazil) in different time periods, though this cyclicity showed some variations throughout different countries. With the words of Kingstone (2011:8) however, by the Millennium it became clear that neither state-led nor market-led approaches to development have lived up to its promises, meaning to result in considerable and sustainable improvements in human wellbeing in the Southern continent.

This overall disappointment with previous economic models and regimes has led to the so called ‘turn to the left’, or ‘pink tide’, as between 1998 and 2015 leftist presidents were elected in 15 Latin American countries⁶, resulting that more than three quarter of the population of the Southern continent has been governed by leftist governments. These leftist governments have varied in the degree of departure from market-oriented economic policies, but all have introduced or strengthened redistributive social policies. Roberts (2014) calls this turn to the left throughout Latin America the politicization – or re-politicization – of social issues and drives it back on the democratization process in the region. He (in line with other specialists of the region) argues however that the main reason behind the shift to the left was the growing frustration with the disappointing results of the neoliberal reforms (in line with the Washington Consensus and its augmented version). The swing to the left was thus not an ideological realignment, but rather a retrospective economic voting reflecting the rising social needs of the population. Kingstone (2011:92) adds that these changes have resulted that social problems of poverty and inequality have returned to the top of the political and development agenda throughout Latin America.

⁶ As the first milestone for these changes most authors mention the election of Hugo Chavez in 1998 for president in Venezuela, followed by other countries: Chile (2000), Brazil (2002), Argentina (2003), Dominican Republic (2004), Uruguay (2004), Bolivia (2005), Nicaragua (2006), Peru (2006), Ecuador (2007), Honduras (2007), Guatemala (2008), Paraguay (2008), El Salvador (2009), Costa Rica (2014).

In spite of these common trends differences among the leftist regimes prevail. Kingstone (ibid) differentiates between contestatory left regimes⁷ (like Venezuela, Bolivia and Ecuador), and more moderate (also called social democratic) regimes (like Brazil, Chile and Uruguay). In this paper we look at a classic example of the more moderate left regimes, the case of Brazil under Lula.

Cyclicalities of state activism in development in Brazil

In order to better understand the new Brazilian Developmental State one would need a historical overview of its evolution, as legacies of the past (such as the import substitution industrialization, or certain shortcomings of the democratization process) affect the present situation. This means that a certain path-dependency prevails, and to be able to answer the challenges of the twenty-first century, it is inevitable to take into account former practices, experiences, analyse failures and successes.

It is however out of the scope of this paper to provide a detailed overview of the history of the Brazilian development-oriented approach⁸. Here we just sketch the historical cyclicalities of changes in the role of state played in development in Brazil (Table 2), and then concentrate on the most recent period since the Millennium.

Modern economic history in Brazil has been exciting and multifaceted in political, institutional and economic dimensions⁹. Though roots of developmentalism can be traced even to earlier period¹⁰, here we look only at the period beginning with 1930 up to date (2014/15). As shown in Table 2 certain cyclicalities can be observed regarding the role of state in development, we will see at the end of the paper that both continuity and change in developmentalist approach can be revealed, and the story is much more nuanced and complex than a simple “shift to the market and back” swing would suggest.

We distinguish three phases of the last 80 years of Brazilian state-led development: 1. the so called “estado desenvolvimentista”, or as we call it, the “*old developmental state*” (1930-1985), 2. the turn to the market during the neoliberal reform period, or with Kerstenetzky’s (2014:174) words reflecting better the Brazilian way of market-orientation “*state-led governance by the market*” (1985-2002) and 3. the most recent new developmentalist period,

⁷ Some authors (like Roberts, 2014) even divide this group into two: 1. left-nationalist regimes of Argentina and Ecuador, and 2. the more radical populist approach of Venezuela, Bolivia (and since 2007 Nicaragua).

⁸ For this see Kerstenetzky (2014), Draibe (2007) or our recent paper (Ricz, 2014).

⁹ For a more general overview on the economic history of Brazilian state see: Burlamaqui et al. (2006), Kingstone – Power (2008); Baer – Fleischer (2011), Font (2011), Roett (2011:37-72).

¹⁰ See Sikkink (1991), Schneider (1999).

the *emergence of a new developmental state model* (2003 – 2015), to which we turn in the following sections.

Table 2: Variations of economic policies

Period	Political cycle	Focus of economic policies
1930-1985	The 'old' developmental state	Import substitution industrialization
1930-37	<i>Authoritarian regime</i>	<i>Restricted industrialization</i>
1937-45	<i>Open dictatorship (Estado Novo)</i>	
1945-64	<i>Populist State (restricted democracy)</i>	<i>Structured, heavy import substitution industrialization (ISI), developmentalism</i>
1964-1985	<i>Military Developmentalist State</i>	<i>Extended ISI, export-promotion</i>
1985-2002	Democratization and turning to the market	Economic stabilization, opening up and structural adjustment (neoliberal reforms)
1985-90	<i>Cycle of democratization (José Sarney)</i>	<i>New Republic, New Constitution, attempts of economic stabilization</i>
1990-95	<i>Failure of economic stabilization (Fernando Collor de Mello and Itamar Franco)</i>	<i>Neoliberal reforms, attempts of economic stabilization, structural economic reforms</i>
1995-2002	<i>Cycle of economic stabilization and liberalization (Fernando Henrique Cardoso)</i>	<i>Real Plan and the success of economic stabilization, market-friendly reforms, pragmatism</i>
2003-2015	Towards a new developmental model (?) – Administrations of Luiz Inácio Lula da Silva and Dilma Rousseff	A mix of sound macroeconomic policies and focus on social issues

Source: own construction

Towards a New Developmental State Model in Brazil

The main part of our paper is dedicated to the analysis of the political economy under the Lula period. First we provide a short general overview on the Lula administrations, and then try to present most important cornerstones of the new development model in Brazil according to the structure introduced in the first part of the paper.

A general overview of the Lula period

The year of 2003 marks an important cornerstone of the Brazilian economic history and political economy. There is however much contestation in literature, whether the Lula administration (2003-2010) represents *continuity* or rather *change* with the market-oriented (also labelled neoliberal) economic policies of the previous period, more concretely with the Cardoso era. In this section we will argue that lines of both continuity and change can be observed, however a special policy mix is unfolding and characterizing a new developmentalist model, also called *Lulismo*, and this strikingly differs from the more “text-

bookish” neoliberal model of the previous era, but also from the ‘old developmentalist’ approach of the ISI-period (1930-85).

Luiz Inácio Lula da Silva (from now on Lula) took office under stormy circumstances in January 2003: the context of external crisis, low growth and uncertain domestic political arena all led to speculative attack on real, and its devaluation. The first Lula government has had thus first to restore the confidence of the markets¹¹, and continued (in contrast to all expectations among his allies as well as opponents) with the macroeconomic policies of his predecessor concentrating on the fight against inflation and public indebtedness. Regarding the first term of Lula governance it is often claimed that it was rather dominated by the focus on macroeconomic issues, and as a result (but also due to more favourable international circumstances, such as global economic growth and the reversal of declining terms of trade, mainly due to increased Chinese demand towards basic Brazilian export products) economic indicators started to improve from 2004.

Annual GDP growth rates reached 4,1 % on average between 2003-2010, well above the previous period (1,9 % between 1990-2002), but also above Latin American, world or OECD averages for the same period (WDI, 2015). Though this economic growth track might seem moderate in Brazilian terms¹², still it was accompanied with significant declines in economic volatility and inflation (Gerring et al., 2011:1738) and decreasing external vulnerability of the economy (with decreasing ratio of debt service both in terms of export or GDP and increasing levels of international reserves) (*a table on economic indicators in Annex 1 is forthcoming*).

At the same time Lula being a left-wing candidate immediately after taking office showed his commitment to social issues. In several social areas reforms have mainly continued changes started in the Cardoso era, but concentrated on issues left out by then (such as restrictions on public functionaries and the introduction of compulsory contributions of retirees (Draibe, 2007:276)) or took the form of *institutional reforms* (as the unification of the *federal cash*

¹¹ ‘Letter to the Brazilian People’ (Carta ao Povo Brasileiro) issued during the electoral campaign in June 2002 and the institutionalization of the promises made in this letter by the agreement with IMF meant in practice the continuity with Cardoso’s (neoliberal or orthodox) economic policies.

¹² Compared to the so called “economic miracle” years (1967-73) with average annual growth rates of GDP of 11,3 % (Roett, 2011:61) or more generally to the period of the “old developmental state model” (1930-80) reaching almost 6 % GDP growth rates on average (Maddison, 2001:74). We have argued elsewhere (Riczy, 2014) that this historical growth record was made possible by external factors and was not sustainable financially (as shown at the latest by the debt crisis of the 1980s) nor economically, socially or politically, thus it should not be serve as base of reference today. Still large parts of the Brazilian population look back at this period of the Brazilian economy with nostalgia (even though these were predominantly the years of the military dictatorships).

transfer programmes called Bolsa Família or PBF¹³). Steps towards more inclusive social policies became soon the trademark of the Lula administration.

Commentators (Kerstenetzky, 2014; Cornia, 2014; Wylde, 2012) most often highlight that economic successes went hand in hand with social results: *redistributive* or inclusive *growth* took place, a surprising and new phenomenon in Brazilian, but also in Latin American context. Economic growth was accompanied by decreasing poverty and inequality. Extreme poverty (people living under 1,25 dollar a day) fell from 10 % at the Millennium to 3.75 in 2012, and poverty indigence (at the 2 dollar a day rate) fell also from 20 % to 8 % in the same period (WB, 2015). The same trend applies for poverty headcount ratio at national poverty lines. Though more moderate decreases in inequality levels suggest the incompleteness of the improvement in distributional terms, the reversal of the increasing trend of inequalities (during times of relatively high economic growth) is acknowledged by most economists as a unique phenomenon. The Gini coefficient for Brazil has decreased to 53 % in 2012, from very high levels of around 60 % at the Millennium (WDI, 2015). Last but not least economic and social development took place under democratic conditions, and seem to contribute to a more sustainable path for development in almost all (economic, fiscal, social and political) dimensions than the old development model.

Other economic and social indicators also improved: unemployment rates declined, formal employment and average earnings increased (*a table on social indicators in Annex 2 is forthcoming*). Part of these results can be explained by favourable external conditions, however there seems to be emerging consensus also on positive effects of public policies.

Beginning with 2007 the re-elected Lula was already in the position to put social development issues more at the heart of his economic policy agenda. This together with the adoption of emergency anticyclical policies in the face of the crisis of 2008 has led to a so called *internal market alternative* to circumvent bottlenecks of growth and employment (Boschi, 2011:37).

During his second term Lula continued to pursue with sound *macroeconomic policies*. Brazil was not drastically affected by the recent financial and economic crisis, and also recovery was much quicker than in other (mainly OECD) countries. This is mostly explained by successful macroeconomic policies, successes in social incorporation, the domestic market expansion prior the crisis and anti-cyclical measures after it. Domestic demand was largely stimulated by government's measures, such as expansion of social programmes, credit incentive policies,

¹³ The "Programa Bolsa Família" was started by Cardoso, however institutional reforms and widening the scope of the programme meant, that overwhelming results were achieved in the Lula period.

labour market policies, growing government expenditures (mainly due to the new public investment plan, the Growth Acceleration Programme).

However a (rather implicit than explicit¹⁴) *ideational shift* in the development discourse has also taken place in Brazil. Bresser-Pereira calls it new developmentalism (2011), Boschi (2011:37) refers to it as the “*revival of state developmentalism*”, although re-defined and re-adopted to new times. According to (Draibe, 2007) it can also be regarded as the move towards a new *social developmental state*. She calls it even new developmental welfare state, which might be justifiable, if we compare the new Brazilian DS, to the classic, (North-) East Asian type developmental states. But still one has to be very cautious to call it welfare state, as it is basically different from European welfare state models.

In the media, and even economic literature widespread criticism of the Lula period exists, and most critics claim that Brazil did not reach its potential growth rates due to “wrongheaded macroeconomic policies” (Carvalho, 2007:30; for a more detailed analysis of macroeconomic constraints to growth see also Oreiro et al., 2012). In the next section however we will argue, that although growth record was less impressive than it could have been (or than it was expected¹⁵), it was still a steady and positive growth, and not least it was accompanied by improvements in other important components of development (e.g. several social indicators).

Thus we critically look at the political economy of the Lula administration, also called *Lulismo*, and argue that a new developmental model is emerging in Brazil, and this goes beyond pure macroeconomic accounts, but is also more complex than providing social safety nets (or implementing other social policies).

Contours of a new development model in Brazil

Instead of providing a more detailed, more complete picture of economic policies under the Lula administration or looking extensively at different indicators of economic performance or wider defined development¹⁶, we aim to reveal core elements of the new developmentalist model of Lula. For this we synthesize recent economic literature (mainly relying on Draibe,

¹⁴ Though of course a shift in rhetoric could also be revealed, in this paper we rather concentrate on accomplishments (economic policies and achieved results) and not on political promises or slogans.

¹⁵ One has to be cautious with expectations in Brazil as these often refer to the economic miracle years between 1968-73, or the old developmental state period. See also footnote 12.

¹⁶ For this see for example Roett (2011:109-126), Baer (2014) or Kingstone – Power (2015).

2007; Pinheiro et al., 2007; Carvalho, 2007; Kerstenetzky, 2014; Wylde, 2012; Amann - Barrientos, 2014) and build upon the structure presented in the theoretical part.

1. *The level of political settlement and socio-economic alliances: a new social contract*

We start our analysis on the highest level of the structure presented in the first part of the paper, and look at the new social contract which resulted from the changes in political settlements and the new socio-economic alliances coming to fore mainly thanks to the democratization process, but also shaped by other factors (such as the Real Plan, some labour market changes, the rise of the unionist movements, and finally the victory of the Workers Party with Lula as president).

To analyse the emergence, maintenance and strengthening of the new and complex socio-economic alliances and the resulting new social pact we first refer to three intrinsic momentums (of which two well precede the Lula period), and then extend on the content of the new social contract.

First and foremost the failure of the ISI development model to result in sustainable economic growth and substantial improvements in human wellbeing led to the loss of legitimacy of the military dictatorship and the *democratization process* started in 1985. The *new Constitution* coming to force in 1988, was a result of long-repressed social and political demands of masses, and unsurprisingly guaranteed wide-ranging social rights (to education, health and social protection) for the new social groups (mainly rural and informal workers), while at the same time contributed to democratizing public policies on a decentralized and participatory way¹⁷.

This new Constitution has institutionalized a *new social contract* incorporating the worst off social groups in Brazil, and this new social pact is viewed as a basic requirement for the new developmentalist approach emerging after the Millennium. It led to the prioritisation of social issues, and the focus on raising living standards among the poorest groups and regions in Brazil. Several reforms in education (the FUNDEF¹⁸ programme providing financing and technical support to upgrade basic education) and healthcare (Unified Health system, Rural Social Insurance) were put in force and new social assistance programmes with a special

¹⁷ Without compromising the progressivity of the new Constitution and the shift it meant towards a more inclusive development model, after the legislative euphoria new tensions came to light (Kerstenetzky, 2014:174): social rights and public responsibilities were laid down in great, however insufficient detail (leaving space for discretion and imperfections in realisation and implementation).

¹⁸ Fundo de Manutenção e Desenvolvimento do Ensino Fundamental.

focus on groups in extreme poverty (like *Bolsa Escola* and *Bolsa Família*) were initiated already in the early 1990s.

In spite of these institutional reforms the full potential of the new social contract could not be realised as during the first decade after the democratization accelerating inflation threatened to destroy the economy, and until the Real Plan in 1994 the fight against hyperinflation and macroeconomic stability dominated the economic agenda. Social tensions prevailed as social spending was cut, income distribution worsened and social indicators stagnated. (*See data in Annex 2 – forthcoming.*)

In this turbulent and exciting times¹⁹ of the Brazilian economic history, the restoration of civil and political rights and democratic elections led new patterns of social demands (besides higher salaries, adequate housing, education, health and social security – thus better social protection) resulting in extraordinary growth of civil society (the number of social organizations), and also to new forms of political behaviour²⁰ (Draibe, 2007:261). These changes gained significance in the eve of the new Millennium and contributed to the emergence of the new development model.

At the first sight it might seem paradoxically that we recall *the Real Plan*, and the Cardoso era as the second intrinsic momentum contributing to the new social contract, a core element of the new Brazilian development model after the Millennium. The last decade of the twentieth century after all was characterized in Brazil with the breaking up with the ISI model of development and the dirigiste approach. Besides economic stabilization market-oriented reforms (liberalization, privatization and institutional changes) dominated the political agenda.

However as Roett (2011) puts it besides the technical proficiency of the Real Plan another key reason behind its success was the building up of a *broad political and social consensus* to back Cardoso's programme, that brought together different actors across political party divides, business, trade unions and civil society to support the reforms. The political consensus around the stabilization plan and the aim of macroeconomic stability was strong enough (and has been well institutionalized) to 'survive' several changes in ruling coalitions.

¹⁹ It is enough to refer to the five unsuccessful stabilization plans between 1985 and 1994 (the Cruzado plan of 1986; the Bresser plan of 1987; the 'Summer' plan of 1989; the Collor I plan of 1990 and the Collor II plan of 1991).

²⁰ The latter led to new unionism (of which Lula has been an outstanding leader since 1970s) based on independence or autonomy towards the state.

According to Amann and Barrientos (2014:3) the greatest political challenge before introducing the Real Plan was to abolish the income indexation in the formal sector (a main source of persistent inflation). The mentioned authors drive back this success on the one hand on the collective recognition of the exhaustion of the ISI development model and its financial failure (it has 'locked in' hyperinflation), while on the other hand they emphasize the new modes of political discourse, a consultative and inclusive approach applied by Cardoso. We will come back to this latter issue in the next section, while analysing the modes and quality of the policy-making process.

The Cardoso era (thus the period after the Real plan from 1995 to 2002) is often called the period of re-democratization (Arbache, 2004:13), a relative stable political term free of corruption scandals, characterized by *unified consensus in politics* and backed by economic stabilization. We not only recall this period as laying down the economic basis for the institutionalization of the newly emerged social contract, but as we shall see in the next sections, several other changes in policies, structural and institutional reforms that have contributed to the emergence of new development model of Brazil after the Millennium date back to this period.

The already mentioned reforms in the social subsystems were deepened during the Cardoso years, and a few new ones were also initiated, mainly related to health (the new Family Health Programme to extend health provision to lower income groups), the pension system (the introduction of a non-contributory pension to provide transfers to poorer older people and people with disabilities) and social assistance (like a guaranteed income scheme to focus on reducing child labour – PETI²¹) (Amann – Barrientos, 2014:7-8). These reforms have contributed to the social achievements under the Lula era, as the focus of social policy has been changed, to concentrate on the extremely poor segments of the society, and the programmes combined direct cash transfers to the poor with conditions to ensure human development investment (like children's school attendance and primary healthcare utilization). The roots of productive and transformative social policies (constituting the core element of the new development model under Lula) were laid down during the last decade of the twentieth century.

The third milestone contributing to the strengthening (or even cementing) of the political and social consensus behind the macroeconomic stabilization in particular and the new policy directions moving towards more a more market-oriented approach combined with more

²¹ Programa de Erradicação do Trabalho Infantil.

progressive social policies focusing on the poorest parts of the society, was the *electoral victory of the Workers Party (PT²²)* and *Lula da Silva* as president in 2002.

Main continuities with the reform agenda put in place under Cardoso show the *degree of collective 'buy-in'* of main political parties and social groups (Amann – Barrientos, 2014:4). Commentators tend to highlight that though all expectations the Lula administration has not pushed back on reforms like privatization, market liberalization, or trade reform, which is in sharp contrast to some more radical Latin American counterparts (like Argentina or Venezuela). The core elements of the Real Plan (except the exchange rate peg) were kept in place, and show the continuity of macroeconomic policy, which was not only successful to control inflation, but also to build up and maintain the confidence of foreign (and domestic) investors, and thus contributed to strengthen the wide-ranging consensus behind the new developmental regime.

We argue however that despite all these continuities, as a result of the above mentioned processes, the new socio-economic alliance built up by Lula represented the main discontinuity with former periods of the Brazilian political economy. Wylde (2012:177) argues that in this new social pact diverse socio-economic groups were associated, mainly through the low-inflation regime, but also via different channels resulting from the special mix of public policies. While the support of traditional national elites was maintained through the continuity of their main existing constituencies, the inclusion of the poorest parts of the society was a new and unique phenomenon. The poor were bought in to support the regime via social and compensatory income programmes, and the overall developmental vision of the Lula regime, the new approach to development combining financial stability with economic growth and social justice. Thanks to his former local politician's past Lula was able to incorporate also the moderate middle classes into these new social-economic alliances mostly via his convincing managerial capacities at the local level. Within the political sphere and the Workers Party Lula was also able to connect the political allies of the middle class with the trade-unionist wing, the working class. However even other more locally based groups have contributed to the strong coalition of interests and resulting in an (at least in Brazilian context) unusually strong power base for Lula and his regime.

As Saad-Filho (2007:18) puts it the new socio-economic alliance was the result of the 'alliance of losers', the interest groups who had the most suffered under the previous neoliberal period. He speaks about four main socio-economic groups: 1. unionized urban and

²² Partido dos Trabalhadores

rural workers; 2. rural and unskilled workers; 3. the prominent capitalist class; and 4. other oligarchs, landowners and politicians based in the poorest regions of Brazil. A further group could be added, international investors and capitalists also supported the Lula regime, as their confidence was reassured by the continuity with sound macroeconomic policies.

The new social contract can best be captured by the new inclusive approach to development defined as pro-poor or equitable growth. Nonetheless in line with Wylde (2012:180) it has to be highlighted that Lula's development agenda was not a pure or traditional leftist agenda. The desire of more equitable distribution of income was only part of the story. The inclusion of the poorest parts of the society into the development (and growth) process was also aimed to serve as potential driver of further economic growth in the future (the internal alternative of development through the unlocked potential of the large domestic market and the unused or underutilized economic potential of the poor and the informal sector).

On the other hand we also have to add, that just because of the complex structure of the new social alliance behind the Lula regime (an alliance of socio-economic groups with very different interests) the resulting developmental agenda was a more or less balanced one, not overly representing or even hurting the interests of one or another interest group. This has resulted a more moderate and pragmatic regime (compared to other more radical experiments throughout Latin America). In the next section we look at the processes that helped to balance between the often opposing interests. Thus we turn to the level of policy-making processes and the institutionalization of the above presented new developmentalist bias.

2. Questions of institutionalization and changes in the policy-making process

On the level of policy-making we have to start the story once again with the adoption of the *new Constitution* in 1988. Besides the extensive social rights agenda, the new Constitution has also implied the democratization of policy-making, and resulted in wide-ranging decentralization processes coupled with the extension of participatory mechanisms. Decentralization meant thus not only that executive (and financial) capacity was transferred to local levels, but this was conditioned upon the setting up of participatory councils to include the representatives of various stakeholders.

Pragmatism is mostly cited in a positive terms regarding the Brazilian political economy, and we refer to it here in the sense that economic policies target at solving specific problems, and reforms are bundled together to help their political approval, and not enacted as a pre-defined

reform programme. Pinheiro et al. (2007) argue that pragmatism was already characterising the Brazilian policy-making during the last decade of the twentieth century, in the era of market reforms. They argue that already in this period ideology and partisan politics have much less influenced the implementation of market reforms in Brazil, than in other Latin American countries. This can however be well explained with the extreme fragmentation of the Brazil party system and the resulting imperative to build political coalitions²³ to be able to “effectively” govern the country. We argue that there exists a marked difference of pragmatism under Cardoso and the later Lula period. During the 1990s an incomplete, flexible and mostly disconnected reform process took place not resulting in a coherent overall change in development strategy rather leading to gradual, piecemeal and contested changes (Pinheiro et al, 2007:73). In contrast we argue, that changes and reform in the 2000s, under the Lula administrations did result in coherent policy mix representing a new approach to development (based on the capabilities approach and the inclusion of the poorest parts of the society).

We do not claim that the developmental agenda of Lula was following a pre-defined exact model, or a strong ideologically loaded comprehensive package of policies. Rather relying on a wide electoral base consisting of different groups of the society with very diverse interests, and the emergence of a new social alliance, resulted in a developmental agenda that was a pragmatic answer to these very diverse social tensions. Thus the new development model emerging after the Millennium in Brazil was a result of pragmatic policy-making, searching for appropriate solutions for urging problems, while maintaining a balance across the diverse interests of the new socio-economic alliance consisting of the most different groups of the economy and society.

Nonetheless there was a clear ideational shift in the understanding of development, moving away from the old developmentalist approach purely obsessed with economic growth and neglecting distributional issues. The new developmentalist approach has grown out from the new Constitution guaranteeing wide-ranging social rights to ensure a decent life to *all* citizens. A totally new approach compared to the exclusionary characteristics of the old developmental state model. Based on the new social contract the move towards more participatory and more consultative policy making became an inherent feature of the new Brazilian model.

²³ Or search for other solutions as did Lula with the system of ‘mensalão’, meaning a monthly salary or stipend in exchange for voting for the government’s programme (for more details see Kingstone - Ponce, 2010).

Amann and Barrientos (2014) argue that the forging of a cross-cutting national consensus was an essential innovation of the Lula administration, and the way policy making ensured that relevant groups across society were bought into the reform agenda created a ‘sense of collective ownership’, which in turn facilitated the implementation of the reforms.

The main difference to the previous neoliberal reform period and its pragmatic approach was, that while in the neoliberal era single reforms were bundled together to help their approval in Congress, and lacked a strong social or even political consensus, as the belief in the virtues of market forces was far from widespread in public opinion. In contrast under the Lula regime, the new developmentalist bias of economic policies was based on the overall belief that a more equitable, inclusive economic growth could also help to accelerate economic growth in the future via the productive inclusion of large parts of the society in the development process and the resulting expansion of the domestic market. This pro-poor developmental vision was backed by political and socio-economic consensus and resulted in a special mix of economic and social policies, that mutually reinforced each other, and though these did not follow a previously determined coherent development programme or strategy, still we argue, ex post these can be regarded as a new development model.

To sum up we argue in line with Kerstenetzky (2014:186-187) that significant advances have been made in practices of democratic deliberation in public policy formulation. This becomes evident in the creation of public consultation councils (e.g. Council for Economic and Social Development called CDES²⁴), government and social movements dialogues and participatory budgeting procedures.

These lead us to *questions of institutionalization* of the new developmentalist approach, and the specific elements of the economic and social policy mix. The list of examples for institutionalization within different policy areas could be very extensive. Here we just list some of these for illustration purposes. In the area of fiscal and monetary policies we mention the Fiscal Responsibility Law from 1998 or the independence of the Central Bank, a technocratic institution free from political interference, specifically responsible for low inflation through inflation targets. But the already mentioned ‘Letter to the Brazilian People’, and the IMF agreement in 2002, can also be regarded as examples of institutionalization of fiscal and monetary conservatism.

²⁴ Conselho de Desenvolvimento Economico e Social

In the area of social policies the already mentioned the institutional reforms resulting the unification of the *cash-transfer programmes* under the umbrella of the Bolsa Família, but other examples also show the institutionalization of the new socially sensitive approach. Such as the greater involvement of the private sector through increased corporate social responsibility to end poverty and hunger in Brazil. We have already mentioned the Economic and Social Development Council (CDES) and will refer in the next section to the emerging macro neocorporatist system institutionalising new relations between the state and peak associations of capital and labour. The setting up of new thematic social ministries, such as the Ministry of Social Development²⁵ or the Ministry for Agrarian Development (separate from the Ministry of Agriculture²⁶) is also good signal of efforts to cement the new developmentalist bias in the new institutional setting in Brazil.

In other policy areas similar trends can be captured, as will be explained in the next section on public policies, for example the institutionalization of industrial policies and infrastructural investments can be seen within the framework of PAC, PITCE, PDP or the Greater Brazil Plan (see next section).

There are however also challenges to the institutionalization of the new developmentalist approach, most of which will be highlighted in the section on the most recent period, the Rousseff administration, and the following section regarding the doubts and debates on the Lula period and the question whether its new approach can be considered as a developmental regime.

Besides all achievements in institutionalization of the new developmentalist approach and democratization of policy-making, participation, consultation and public deliberation, Brazil is still a young democracy, with all the ‘usual’ (and at least in Latin America typical) shortcomings of the process. Clientelism is still one major characteristic in politics and leads to uneven inclusion of the new social groups, and the civil society in more general terms. The usual beneficiaries of the old developmentalist bias could mostly maintain their previously acquired rights and benefits (due to the expansion of the social budget during the golden years of the 2000s), and in political sphere this led to deals where the interests of urban as well as rural big business sometimes still dominate over the social development agenda. This can often be captured in the resulting inequalities in deliberation and participation of some marginalised socio-economic groups.

²⁵ Ministerio de Desenvolvimento Social

²⁶ Ministerio de Desenvolvimento Agrario

To underline our argumentation it is enough to recall the recurring social protests and corruption scandals during the last few years also reported in the international media, an almost “compulsory” characteristic of all political periods in the Brazilian political-economic history. Though all expectations (resulting from the historical commitment of the Workers Party to clean governance), this did not change much under the Lula administrations. Kingstone and Ponce (2010:120-121) explain large parts of the corruption and patronage with the ways political coalitions are made up in the fragmented Brazilian party system and some internal mechanisms within the PT (that did not allow to share any competencies – in form of cabinet posts or bureaucratic appointments – with the coalition supporters in exchange for their votes in Congress), but this does not alter the significance and even less the degree of corruption and patronage leading to lack of accountability and too often to the lack of transparency in the Brazilian policy-making.

3. The level of public policies: a special mix of economic and social policies

The third part of our analysis consists of the level of public policies, where we consider the content and orientation of relevant policies for achieving main socio-economic development objectives.

Relying mainly on Wylde (2012) and Amann – Barrientos (2014) the following main policy areas can be identified at the core of the new Brazilian policy model: 1. macroeconomic policies: fiscal and monetary policies, 2. complementary microeconomic policies: growth policies and active state interventions, 3. social policies and beyond (incl. health, education, social assistance and labour market interventions). We will see, that there is not so much uniqueness in either policy area, but the factors all together and mutually reinforcing each other led to a particular mix of economic and social policies that facilitated a successful (and compared to previous periods) more stable, more equitable and more inclusive development trajectory.

Economic literature and analysis tends to agree that ever since the Real Plan Brazil ran a *very tight and conservative monetary policy*, and this was continued by Lula in the 2003-10 period. With the economic historic background of the hyperinflationary “traditions” there is nothing to wonder that the first social need to come to the political agenda after the democratization of the country, was to end the extreme inflationary pressures (disproportionally affecting the poor and marginalized groups in the society). For a more detailed description of this

“democratising imperative” see Burges (2009:202 cited in Wylde, 2012) or for a shorter case study that present the taming of inflation in Brazil as a story of democratic governance see Gerring et al. (2011). The prioritisation and the long-lasting consensus on the low-inflation regime from the part of the voters, led to a strong commitment from the part of the political elite in power. For a somewhat different argumentation see Baker (2009), who drives back the prioritisation of the concerns with the price levels on the prevailing broader trends of consumerism in Brazil, as well as throughout Latin America.

Success in the area of taming inflation is unquestionable during the Lula period. Inflation went down from an average of 12,3 % during the Cardoso era (1995-2002) to an average of 5,7 % during 2003-2009 (Fonseca, 2011:381), not to mention the three- and even four-digit inflation periods of the 1980s and the first half of 1990s. So in historic terms a considerable success: hyperinflation did not return to the Brazilian economy. Inflation targeting and in more general terms reaching and sustaining price stability was at the core of the Brazilian monetary policy. This success was however not without its costs: real interest rates were mostly above 10 %, with Selic Rate not dropping below 15 % (Carvalho – Ferrari-Filho, 2007:72). High interest rates had wide-ranging effects in the economy from which we highlight here that it constrained economic growth (due to suppression of demand through low consumption and investment levels). This is one of most important critic emphasized by the opponents of the Lula regime.

Exchange rate policy was also put to serve the inflation control. The floating exchange rate regime let the Real to appreciate, and the overvalued currency dampened the expansion of the exports, while it encouraged competition between imports and domestic products – all in all it was a supplementary tool (to high interest rates) to secure low inflation.

Fiscal policies of Lula went in the same direction as monetary policies described above. The control of the public sector deficit was at the core of the Brazilian macroeconomic policy. In the already mentioned Letter to Brazilian People, Lula promised to maintain the fiscal responsibility of the Cardoso era. The consolidated primary surplus of the public sector remained above 3 % under the Lula administration, with the exception of the year 2009, when expenditures directly linked to the PAC programme (aiming to remove some infrastructural bottlenecks as part of the growth policy) has led the primary surplus to fall under 3 %.

Fiscal conservatism (the management of the federal public debt) is among the mostly highlighted success stories of the Lula regime. Though the total amount of debt has increased between 2003-2010, as a percentage of GDP it has decreased from above 50 % levels, to

under 40 % level (Wylde, 2012:143). The rationalisation of the outstanding debt stock (decreasing interest rate risks and increasing maturity) was not just part of the fiscal conservatism, but has also yielded an economy less exposed to external shocks (which was proven during the recent financial and economic crisis of 2007-9). Critics however, once again draw attention to the anti-growth bias of such conservative fiscal (and monetary) policies. As Carvalho (2007:31) puts in the Brazil system such fiscal conservatism was only to maintain by raising taxes and curtailing public investments²⁷, both directly reducing the rate of economic growth.

The *prioritisation of macroeconomic stability* was welcome by international capital and also domestic businesses groups, but we aim to emphasize here the average voter's support for the low-inflation regime and macroeconomic stability, and therefore the politicization of the need for good macroeconomic management as a result of the democratization process.

The next policy area of the new Brazilian model is the *complementary microeconomic policies* to promote economic growth. In this regard we have argued in the previous section (against some critical voices), that the Lula regime has maintained strong continuities to both the former developmentalist approach, the old developmental state and also the neoliberal period (and its market-oriented reforms as trade and market liberalization and privatisation). At the core of the continuity with the old developmentalist approach was the *strong political commitment to economic growth*. In the case of late developing countries the ever urging pressure to catch up with the developed world is a traditional economic policy challenge, which has been however even amplified by demonstration effects of the new information communication technological (ICT) revolution and in more general terms by globalization. In the case of Brazil the main line of argumentation can be explained as follows: orthodox monetary policies were the key to macroeconomic stabilization, which in turn was a precondition to achieve higher economic growth rates. This is in stark contrast, with all the conventional critics, that highlight the natural tension between the mechanisms of maintaining low inflation and promoting economic growth (Wylde, 2012:164). The main channel to suppress GDP growth is through the high interest rates that were the result of the conservative monetary policies concentrating on the low inflation rates “at all costs” (Oreiro et al., 2012).

²⁷ As the large proportion of the current expenditure was protected legally, or by strong interest groups.

Large waves of privatization took place in Brazil before Lula (between 1991-2002) got into power and he did not proceed further with this process²⁸, rather tried to encourage qualitative changes in public-private partnerships and to attract private investment into the Brazilian infrastructure systems. While doing this however, the overall developmentalist bias was maintained also in this policy area: this means that the link between promoting economic growth and the desire to benefit the poorer sections of the society (and poorer regions of the country) can be traced.

The Growth and Acceleration Programme (PAC²⁹) a government infrastructural investment programme launched in 2007 is a cornerstone of Lula's policies to promote economic growth. The PAC is an umbrella term for a complexity of infrastructural projects in areas such as sanitation, sewage, water, electricity, road and housing construction, and was planned to reach to around 250 billion USD within a four-year period. It could sound trivial that infrastructural shortcomings are one of the main bottlenecks of long term economic growth and development in Brazil. The PAC is however more than just a government investment programme in at least two ways. First, it is specifically designed to improve the lives of the poorest in Brazil (by rebuilding favelas and providing basic infrastructure to these least developed areas), with the words of Wylde (2012:149) it aims to "*act as a catalyst for social change*". Second, the PAC is more than a package of infrastructural projects, it has also some innovative elements: public-private partnerships (encouraged by tax reliefs and special access to credit), involvement of social infrastructure (such as low-cost housing, sanitation, urban transport, educational facilities, etc.) and decentralized management measures.

This complexity of the PAC programme illustrates well the interrelations between the core policy elements of the new Brazilian developmental regime, where economic growth was not aimed per se, but to improve the lives of the poorest parts of the society. The elements of the model must therefore be considered in their complexity to understand the emerging new developmentalist approach.

Economic policies also aimed to facilitate the growth of the domestic market. In the case of a large country, such as Brazil, large potential for economic growth might come from the domestic market. Infrastructural bottlenecks hand in hand with high levels of poverty result in

²⁸ However as Amann and Barrientos put it (2014:4) Lula appeared to be committed to transform the Brazilian economy into a competitive global player and did not reverse the process of privatization (or other reforms related to market or trade liberalization), as was feared by foreign investors initially based on their experiences in Latin American countries (like Argentina or Venezuela).

²⁹ Programa de Aceleração do Crescimento.

suppressed domestic demand and consumption. The PAC programme not only promoted growth directly through increasing aggregate demand by higher investment in infrastructure, but doing this in the poorest areas of Brazil, it facilitated long-term growth by its social components, as it removed barriers to increase private consumption, saving, and investment (Wylde, 2012: 166).

Active industrial policy has also been at the core of promoting economic growth, and was institutionalised under Lula by the Industrial, Technological and Foreign Trade Policy (PITCE) in 2003. The overall vision was to promote industrial competitiveness through the stimulation of innovation and to help the move towards greater value-added production. This new pro-innovation policy approach was distinct from the old (traditional) industrial policies pursued in 1960s and 1970s that focused on expanding physical capacity. It also broke away however from the lack of industrial policy that marked the 1990s, which in turn was not tied to any clear industrial stratagem, but focused on competitiveness.

In 2008 the objectives of the PITCE were expanded under the rubric of the Productive Development Plan (PDP), to include many more sectors in the policy priorities. The PDP comprised various types of measures such as tax exemptions, funding, increases in government purchases, legal and regulatory improvements and technical support. Aiming to leverage the investment process, the programme focused on actions related to 25 sectors in an endeavour to increase competitiveness. The general approach has not changed: innovation was defined as one of the basic pillars for economic growth.

To sum up PITCE and PDP can be seen as combinations of both horizontal and vertical instruments designed to address industrial policy objectives that extended from strategic choices to all economic activities. The greatest merit was the issue of industrial development policy was reintroduced into the political agenda as an important economic development tool. In the light of the international financial crisis, however the implementation of the PDP achieved more of a countercyclical role than exercising a transformative function in the pattern of investment in the Brazilian economy. In the literature significant critic addresses real results of Lula's industrial policies (Almeida – Schneider, 2012), claiming that though some initial, positive results “China and ‘low-tech’ businesses seem to have become the real drivers of the government's industrial agenda” (Menezes, 2010:1). In contrast Amann and Barrientos (2014:6) argue that in certain sectors (though mainly connected to agriculture and

related services as distribution and logistics, but there are also other key industrial areas³⁰, and even in software development and technical services) Brazil did move up the value chain, which is markedly signalled by increasing adding value and technological input, and changes in the qualitative nature of the products exported. Thus they argue that it is overly simplified and missing the reality to claim that Brazil's integration with the global economy is simply based on low valued added and low price.

Problems with implementation of the plans (PAC and PDP) are mostly related to planning rigidities, legal and judicial difficulties, high costs of financial intermediation and often also lack of technical and managerial capacities. In fact despite governmental intention and programmes according to Frischtak (2008: 310 cited by Amann – Barrientos, 2014:7) infrastructural spending both by the private and public sector declined from 3.3 % of GDP to just 2.2 % between 2001 and 2008. These shortcomings regarding the level and efficiency of investments led to lower (than potential) growth rates, and infrastructural bottlenecks still represent one of the major urging developmental issue in Brazil.

To sum up however we highlight that state interventions to promote economic growth were mainly designed so as to take into accounts aspects of fiscal responsibility and social progress, and (though some difficulties in implementation and missing short term results) they seem to contribute or fit into the overall development approach and agenda.

Turning to the third element of the model, we explicitly look at the role of widely defined *social policies*, policies aiming at *reducing poverty and inequalities*, while at the same time including all segments of the society in the development and production process (transformative social policies³¹).

Initially fiscal conservatism led to relative scarce resources to fund social policies, thus radical or comprehensive social policies were not feasible fiscally. Nor were they desirable politically as Lula's middle-class and domestic bourgeois voters would not have supported a more radical new social contract. This did not however result in neglect of social development issues, on the contrary it led to some new (innovative) solutions.

³⁰ Most often cited example is the transportation equipment, especially aircraft construction (and development), where Brazil has become one of the world's leading exporters, and the role of the state's support cannot be denied in this success story.

³¹ According to Mkandawire (no year:1) the transformative role of social policies has been often overlooked in classic developmental state literature, while in the new generation of DS it is becoming more widely recognized and should be seen as constitutive element or defining feature of a new DS concept.

Immediately after the expansion of social rights in to the new Constitution in 1988 financing the new social agenda was problematic due to macroeconomic (fiscal) constraints. In 1997 two specific taxes³² were introduced (for a ten year period) and earmarked to finance social expenditure and overcome the fiscal constraints. In 2007 the failure to renew these taxes, and next year the impact of the financial crisis led to concerns regarding the financial sustainability of the increased social spending. However Lula (just beginning his second term after being re-elected with an even expanded electoral base ranging over the entire social spectrum) has managed to secure adequate financing for social issues through a tax reform (including the transformation of earmarked taxes for social expenditure into federal consumption tax (Kerstenetzky, 2009 cited in Amann – Barrientos, 2014:9)).

After all under the first Lula administration (between 2004-08) social spending grew at a moderate rate, from 12,3 to 13,1 % of the GDP (de Castro et al., 2012), however this growth represents an even larger increase in the absolute numbers, if taking into account the growth of the GDP within the same period³³. During the second term the increasing trend of social expenditure continued, and reached levels of around 15 % of GDP, one of the highest among emerging economies (while naturally remaining well below OECD averages or the levels of the European welfare states (OECD, 2014)). As a result social expenditure rose in both absolute and relative terms in the 2000s reflecting well the new centre of gravity in Brazilian public policies.

The most important pillar of the new social agenda contained the consolidation of *federal cash-transfer programmes* to the poor, the so called Bolsa Família programme (Programa Bolsa Família – PBF), that represents the flagship social programme of Lula. Though it was the continuation and rationalisation of former projects (started in the Cardoso era), clear political commitment and several institutional reforms put in place under the Lula administration led to new dimensions regarding social results. With a low share of total benefit of the Brazil's GDP (slightly more than 0.4 %) and also constituting to a small proportion of households incomes (slightly less than 0.7 %) the effect of the programme on reducing income inequality and extreme poverty is widely accepted, though debates address the exact numbers quantifying its real results (Soares, 2012:7). Further reforms, in fact doubling the coverage of the programme and increasing its benefits, have resulted that the

³² A tax on financial transactions (the CPMF) and a tax on sales contributing to finance social insurance (the Cofins).

³³ If we compare this level of social spending to the levels in the mid 1990s, barely above 9 %, the difference is even more striking.

PBF at the end of the Lula period provided minimum income levels to almost one-quarter of the Brazilian population.

Commentators highlight serious problems with implementation of the Bolsa Família programme. Though successful reforms, also aiming at by-passing old local clientelistic channels, political manipulation is still present in the selection procedures of eligibility. Lack of household level data and an overcentralised system of management lead to challenges regarding targeting and implementation. Notwithstanding the critics, finally the Bolsa Família turned out to be a low-cost and highly efficient tool of poverty reduction supporting effectively Lula's Zero Hunger (Fome Zero) initiative. This type of social programmes (though justifiable critics³⁴) are in line with the new developmental approach. Thus the PBF can be seen as a good example of applying the new paradigm of development in social policies, and encouraging the long-term enabling and empowerment of the poor for improving their own lives through human capital formation and family responsibility.

The role of social policies in the new developmentalist approach of Brazil goes beyond the provision of (limited) social safety nets. Important changes in other areas related to social issues are also important element of the new model. Kerstenetzky (2014:180) highlights the the emphasis on capability-enhancing measures incorporated for example in constitutional amendments (additional funding for educational purposes through the FUNDEB, making education compulsory for 4 to 17 year-olds and expanding the reach of the social security system among others). The incorporation of new private actors into the implementation of social policies (through new alliances between public and private sectors) goes in the same direction, and a good example for this is the increased level of corporate social responsibility of some supermarket chains to contribute to the Zero Hunger initiative (Wylde, 2012:155).

Finally reforms in the area of *labour policy and industrial relations* have also contributed to productive inclusion and the new developmentalist approach. Labour market interventions constituted to be an important element of Lula's new social agenda: the minimum wage revaluation policy (that led to steady increase in real minimum wages with the aim to restore its purchasing power) and incentives for formalization of employment (such as tax simplifications, closer monitoring of existing employment) led to more formal jobs and higher earnings. These improvements can be dated mostly to the second term of the Lula

³⁴ Besides being insufficient to lift recipients out of poverty, and still excluding a lot eligible poor people, most critic imply that it could lead to the increase of patronage and induce a certain dependence on government handouts. For more details see e.g. Lindert et al. (2007) or Hall (2008).

administration. Real wages have grown, though only modestly, and average earnings started to recover in 2005, rates of total employment and formal employment rose (the latter declined in 1990s to 41 %, and recovered between 2005 and 2008 to 45 % (Kerstenetzky, 2014:194)). Social security coverage also expanded, and reached almost two thirds of the labour force in 2008 (mainly due to formalization of jobs). Still one has to admit, that underemployment and informal employment are high in Brazil by any measures, and the presidential promise of ten million new jobs, has quickly disappeared from Lula's rhetoric.

The story regarding state, business and labour relations is even more complex. One of the main characteristics of the old developmental regime was the suppression of the labour market. The fragmented and often clientelistic state corporatist regime underwent significant changes with the democratization process in the 1980s and a so called neocorporatist system emerged. In this new regime tripartite interactions between government, business associations and labour unions were institutionalized and resulted in participation opportunities of the two latter in policy-making. Though sectoral chambers were swept away during the macroeconomic stabilization in the mid of the 1990s, industrial relations remained to represent new dimensions.

Lula, with a labour unionist background aimed explicitly to improve government relations with business and labour. For this Council for Economic and Social Development (CDES) was created in 2003 to encourage and enable dialogue between state and society. According to Doctor (2007) a slow process started, which relying on the former corporatist traditions in Brazil, aimed at incrementally adapting and updating existing institutions and channels to new contexts of democracy, open economy and globalization. He calls this attempt the institutionalisation of macro neocorporatism, where the emphasis is on state relations with peak associations of capital and labour³⁵. This process fits well into the wider changes under Lula, where social inclusion and the promotion of economic growth go hand in hand.

Reforms on other areas of social policy were less impressive under Lula. The reform of the social security system was rather limited, and did not profoundly alter former preferences and privileges towards the middle classes. Thus distortions in social spending continued to contribute to high levels of inequalities within the Brazilian society.

³⁵ This is in contrast for example with the meso neo-corporatism of the first half of 1990s, when the state sought interaction with specific sectors or professions, not necessarily involving representatives of labour, but providing ample opportunities for rent-seeking by certain sectoral groupings.

Heavy critics regarding the social achievements of the Lula period concentrate exactly on this latter issue by claiming that inequalities were not addressed in any *systemic way* by Lula, and the slight decrease between 2003-2010 is only a by-product of complementary growth policies (such as the PAC programme) that led to a more even distribution of the fruits of economic growth across the society. Cornia (2014) and others however argue, that in a period with considerable growth records decreasing inequalities (if only at moderate rate) have to be regarded positively (as this is rarely the case), and in the case of Brazil it is at least partly the result of conscious public policies.

According to Wylde (2012:169) this social welfare model fits well into the overall picture of the Lulismo: it addressed absolute poverty, as the poor constituted a key part of his electoral base, but at the same time Lula maintained his policy-making within the market-oriented approach in order not to endanger the overall objective of economic growth. Poverty and inequality was addressed through a wider agenda, besides social policies the low-inflation regime in particular, and the decreased vulnerability of the economy in general, as well as the socially more balanced economic growth track all have contributed to an improved well-being of the poorest and most marginalized groups of the society.

To sum up our argumentation regarding the role of social policies in the new Brazilian model of development we highlight three aspects according to Amann – Barrientos (2014). First and foremost the *issue of financing* of an extended social agenda, that in developing and emerging countries is often the counter-argument against the move towards more inclusive approach to development. In the first part of this point we have argued that internal policy choices (earmarked taxes) and favourable growth records together have resulted that financing of the expansion of social policy has been relatively unproblematic in Brazil in the 2000s (we will see however that changes under Rousseff have put an end to this ‘almost ideal’ situation).

The second specific aspect on the role of social policies in the new Brazilian model concerns its *productive capacity*. An important innovative characteristic of the social policy approach in Brazil is the focus to improve the productive capacity of its new target groups, mainly the disadvantaged and marginalised segments of the society. Linkages to health and education are straightforward, as improvements in education lead to increased productivity, while improvements in health might lead to longer lives. Provision and access to service have been improved, while new social assistance (mainly conditional cash transfer) programmes have also led to increased motivation of families to utilize these better opportunities. Almost all indicators related to human development (including schooling and health) (*as described in*

Annex 2 - forthcoming) have improved. Public education coverage has expanded and consequently illiteracy rates fell among the young³⁶ (in the cohort of 15-24 year olds to around 2 % by 2011 (Ferreira da Souza, 2011), and average duration of schooling has improved.

Wide-ranging critics address qualitative disparities and other shortcomings related to all social (educational, health and social assistance) subsystems. It is enough to recall for example the very low rankings of Brazil in the PISA/OECD examinations to underline inherent problems (related to funding, quality, access, etc.) of the educational system. Thus Kerstenetzky (2014:184) argues that notwithstanding some basic progress in social development, the potential for economic growth based on social investments is still underutilized in Brazil.

In contrast Amann and Barrientos (2014:12) highlight the fact that the new orientation of Brazilian social policies towards improving the productive capacity of the disadvantaged and marginalised groups of the society has resulted in pro-poor economic growth. The income growth was at around 7 % for the lowest decile of the society while it only reached 3 % for the highest decile during the 2000s, a new phenomenon in Brazil.

To sum up we argue that the new orientation and resulting achievements of social policies in Brazil are in line with the human capabilities approach to development (according to Amartya Sen (1999) and the new paradigm of development) and the transformative social policy approach (according to Thandika Mkandawire (2007)) and these represent a core element of the new Brazilian model.

Finally it is important to see, that while the achieved economic growth track of Brazil remained below its ‘theoretical’ potential, and even potentials of social investments remained underutilized, the growth in social expenditure in Brazil is likely to have had a direct effect on economic growth through its effect on *domestic demand*. Amann and Barrientos (2014:13) highlight this aspect, the *role of growth multipliers*³⁷ as the third important characteristic of the new social policy approach in Brazil. Their main conclusion is that the expansion of social policy in Brazil has not only resulted in reduction in poverty and inequality, but via the

³⁶ Though adult illiteracy is still very high, at a level of around 10 %.

³⁷ According to IPEA estimates (2010 cited in Amann – Barrientos, 2014:13) the GDP multiplier of social expenditure was 1.37 in the mid-2000s, while its effect on household income growth rates was even higher, 1.85. Unsurprisingly expenditures on health and education services result in higher GDP multipliers, while social protection or assistance expenditures lead to higher multipliers for household income growth. Expenditure on social assistance transfers results in the highest growth of household income. One of the most often cited result of the new Brazilian social policy approach is, that raising the social transfers allocated via Bolsa Família with a budget equalling to 1 % of GDP would raise household income by more than 2 percentage points.

domestic demand channel it has also (directly and indirectly) contributed to economic growth and this is a very important and unique feature of the new Brazilian model of development.

To sum up we have presented main policy elements of the new developmentalist approach of Brazil structured around three core areas (macro-, microeconomic and social reforms) representing together a special policy mix, the essence of the Lula model. Several other policy areas were left out by intention, as we tried to highlight those central components of the model, which make it different from previous economic periods, or maybe from experiences of other countries.

First we shortly list most important aspects left out from our model, and then turn towards the debate on the question whether the presented new approach to development can be regarded as a new development model, or better fits the category of short term economic policy experiment under Lula (also called Lulismo).

First and foremost we have to mention the *agenda for state reform*, and highlight at least two important aspects: first, steps towards the *re-professionalization of the public sector* and *reforming the revenue collection* in order to restore government capacities were made³⁸; and second, *improvements in participation in decision-making and democratic deliberation* were achieved. Although basic elements of these latter were laid down in the New Constitution of 1988, and first initiatives started under the era of Cardoso, practices of participation improved under the Lula administration and responsiveness of public policies has been raised. Still there is space for critics: questions of capacity building connected with decentralization and subsidiarity and in more general terms deviations of legal principles and their implementation practices are mostly highlighted (see e.g. Zimmermann, 2014), while the already mentioned corruption scandals remained an inherent feature of Brazilian policy-making.

It is out of our scope to examine in detail *environmental and agrarian dimensions* of Lula's policies. It is however inevitable to make a note also on this topic in the context of the new development paradigm: undoubtedly responsibility of the government for issues such as deforestation has been raised, at the same time however unintended side effects of some other policies, such as the implementation of the PAC might have resulted in contradictory effects. The same prevails for agrarian issues, were the reform process hardly moved ahead, and land

³⁸ The reprofessionalization of public service took place mainly via new wage and career plans, and competitive public examinations and some results have been achieved in terms of qualified and motivated public employees or revenue collection (Kerstenetzky, 2014:186). We did not explicitly include these areas in our analysis as we do not see that the results or the approach of these policy areas could be considered innovative, or represent a significant novelty in Brazilian context or compared to other countries' experiences.

concentration and thus the quest for a land reform remained an urging issue in Brazil³⁹. With Kerstenetzky (2014:188) words “*the agrarian agenda is by far the greatest frustration*” of the Lula period.

All in all, Lula’s governance (especially his second term) is mostly cited as a significant step *towards a more inclusive approach to development*, even though we have referred to some traditional shortcomings, as for example “never-ending stories” of political (Schneider, 2011) and state reform (Lora, 2007; Peixoto, 2011).

In the next section we turn towards the most recent period and make an outlook to the administration of Dilma Rousseff to see whether the presented economic policy model, was a special brand of the Lula era (also called Lulismo), or has been institutionalized strong enough to have longer lasting effects, and go beyond political cycles.

An outlook: The Rousseff administration (2011-2015)

Lula ended his second term of governance in 2010, with an unprecedented level of popularity⁴⁰, and was able to choose Dilma Rousseff to replace him. After taking office in January 2011 Rousseff immediately demonstrated to continue the path paved by Lula, but with an even stronger commitment to the *social developmentalist* approach. Soon after inauguration she pledged to end extreme poverty and set priorities in fields of education, health, gender equality and political reform. The Plan *Brazil Without Extreme Poverty* (Plano Brasil Sem Miséria) announced in 2011 aimed to lift 16 million Brazilians out of extreme poverty within a three year time period. This aim was to be achieved via a set of elements called *productive inclusion* to support employment and economic inclusion of the poor by promoting their access to vocational training courses, labour intermediation services and microcredit (WB, 2013). It is straightforward to see the continuation with the emphasis on raising productive capacity through transformative social policies as initiated under Lula.

³⁹ Significant progress was achieved (mainly as a side effect of forced industrialization and the need of raising export revenues) in agricultural production, and Brazil became the third largest agricultural exporter of the world with undeniable effects on economic growth record and the trade balance. However this rather “accidental transformation” of Brazil to an agro-export powerhouse as Hopewell (2015) puts it, went hand in hand with devastating environmental and social effects, and can thus rather be considered as “anti-developmental” according to the new development paradigm.

⁴⁰ Not without any reason: the economy grew by 7.5% in 2010, its strongest performance in a quarter-century. Additionally Brazil was awarded both next year’s football World Cup and the summer 2016 Olympics Games.

However there are important signs of discontinuities with the Lula's approach, mainly on the level of policy-making. Several economic commentators argue that Rousseff has moved towards *more interventionist approach* to the economy (instead of following the pragmatic, but consultative and participatory way of Lula's policy-making, where institutionalization of policies served to build up predictability and business confidence). *Discretionary type* interventions (measures introduced mainly on ad hoc basis) in economic policy-making became dominant features (and prevailed in particularly in the energy sector and through industrial policy) and ruined the predictability of policy-making built up by Lula. Though Rousseff tried to put stronger focus on upgrading Brazil's logistics infrastructure (seen as major bottleneck to economic development) through private-sector concessions, several adjustments had to be made to the original plans before adequate returns were offered to investors, and this led to delays in implementation in most of the projects.

A deterioration in fiscal and monetary policymaking during Ms Rousseff's first term led to rising inflation (6,4 % in 2014, and is expected to rise to 8,2 % in 2015) and a rise in the gross public debt/GDP ratio to above 60% in 2014. The Rousseff's government violated Brazil's fiscal responsibility law in its first term, and this could have provided even some legal grounds for the opposition to seek the president's impeachment (though finally it was not the case). What is however more important for our analysis, that this underlines our argument, that though fiscal and monetary conservatism was one of the most institutionalized element of the Lula regime, Rousseff was not able (or willing) to continue with it, and this has to be regarded as an important challenge on the mid or longer term.

The industrial, technological and trade policy of the Rousseff administration is commonly known as the Greater Brazil Plan (Plano Brasil Maior), that followed the PDP, as described in the previous section. This new plan focuses mainly on relief measures related to investments and exports as to cope with the pressures of currency appreciation and credit constraints. It also aims at improving the regulatory framework for innovation, strengthening trade defence measures, expanding fiscal incentives and facilitating funding with a view to increasing the domestic value in and the competitiveness of supply chains with both horizontal and vertical measures.

Though it is too early to evaluate policies of the Rousseff government, we argue that less favourable international context (the prolongation of the 2008 international crisis and weaker economic outlook for China, and Argentina's recession) on the one hand and maybe less fortunate internal policy choices on the other hand have resulted in a definitively lower

growth track since 2011: at around 2 % on yearly average between 2011-2014, and forecasts (of around 1,2 % growth rate between 2015 and 2018) are even worse (EIU, 2015:8). Stagnation of the economy (0,1 % growth rate in 2014) is often explained (mainly by the government side) by temporary factors, like extra public holidays during the football world cup in June 2014, and political instability prior the election in October 2014 (The Economist, 2014).

Economists however tend to agree that besides unfavourable changes in the external context the Brazilian economy struggles in recovering economic growth mainly due to the deeper (internal) causes: weaknesses in macroeconomic policy framework; fiscal laxity and excessive rely on expansion of domestic demand; discretionary interventionist policies (e.g. artificial repression of petrol prices and energy tariffs to dampen inflation, special taxes on certain industries); failure to address chronic problems such as deficiencies of infrastructure; underperforming state administration; rigid labour market regulations and last but not least the complex and “burdensome” tax system. Due to all these factors business confidence has been at lows last seen in 2008-9 crisis (EIU, 2015). This, hand in hand with social protests (as of in June 2013 and during the football world cup) signalled the failure of Rousseff administration to keep Brazil on the development path paved by Lula. In October 2014 however she got a second chance by winning the elections after a very turbulent election campaign. According to The Economist (2015) headlines: *“The mistakes made by Dilma Rousseff during her first presidential term mean her second will be stormy”*.

Due to the short time passed since then we could end here our analysis, and we only refer to one (telling) element of the “stormy second period”: the unfolding corruption scandal involving Petrobras (the state-controlled Brazilian oil-giant) reached several members of the Rousseff administration (politicians from the ruling coalition, including the leaders of both houses of Congress). Though the president herself was not directly implicated, over a million people went to the streets in Brazil in March 2015 protesting against her and her government, and showing the lows of political capital of the Rousseff regime. A second round of protests took place in mid-April however with lower turnout. The upcoming summer Olympic Games in 2016, that under the Lula period tended to contribute to the euphoria involving a general feeling the time for Brazilians has come, and that Brazil will be no longer the ‘country of the future’⁴¹. Under Rousseff however the preparations for the Olympics is rather an additional

⁴¹ As Stefan Zweig has put it in 1941.

source for social protests, delays in construction and investment plans and a further opportunity for the occurrence of corruption scandals.

Experiences under Rousseff show the fragility of Lula's new model: under less favourable external conditions and in the context of significantly lower growth rates (or even in the absence of economic growth) it is a much more difficult challenge to promote social development (underlining that though economic growth is not sufficient, it is still a necessary pre-condition for development), and in turn, fiscal and in wider terms macroeconomic stability and good macroeconomic management are sine qua non conditions for achieving economic growth and wider defined development.

According to the recent report of the Economic Intelligence Unit (EIU, 2015) the new Rousseff government is making some adjustments and returning to more orthodox macroeconomic policies, but fiscal constraints will make it very difficult for Rousseff to push forward the "positive agenda" of social inclusion policies. Thus the question remains open whether she will be able to follow (or rather to return in her second term to) the new developmentalist approach paved by Lula.

A new developmental state model emerging in Brazil?

Much contestation in literature prevails concerning main economic policy characteristics of the Lula period: whether it represents rather a neoliberal or developmentalist/ new developmentalist approach. Boschi (2011:37) argues, that reforms under the Lula administration took place in a way, that lines of continuity dating back to the previous developmentalist model (such as before the era of market-oriented reforms) were kept. He highlights the preservation of a strategic bureaucratic nuclei and patterns of business relations, and regards these as constituting comparative institutional advantages in the era of post-neoliberal globalization. In contrast to the emphasis placed on "path dependency", recent debates have stressed the importance of corrections of previous trajectories. Most often the expansion of *social frontier*, or the *new social contract* are highlighted as the trademark of the new Brazilian Developmental State. This 'path-creation' is also often highlighted referring to the combination of inward expansion (domestic alternative) and outward-oriented global competition, as this approach seems to provide a more viable alternative development model, compared to previous regimes (focusing more on either of the two).

Some commentators (such as Carvalho, 2007) on the other hand argue that Lula's policies has been in clear continuity to Cardoso's neoliberal regime, and economic success (limited due to policy failures) can be explained by favourable international environment. Others (e.g. Burges, 2009) claim, that Lulismo was not so much about changes in central features of economic policy, but solely the *modes of application* were changed. This implies that it was rather the pragmatic approach of policy-making and the learning-by-doing process (taking place since the democratization and not solely under the Lula era) has yielded the achieved developmental progress, and not a new developmentalist model.

According to Gerring et al. (2011: 1737-1738) the picture is more nuanced, and Brazil is a typical case for *pragmatic neoliberalism*, representing a special mix of strict macroeconomic orthodoxy, flexibility on other market-oriented policies, and a commitment to progressive social policies.

In contrast to the arguments that highlighted the favourable external conditions and the continuity with Cardoso's policies as main driving forces behind the Lula regime's development performance, we argue in line with Wylde (2012), Kerstenetzky (2014), Cornia (2014), Amann and Barrientos (2014) and others, that public policies also played a role, and these went beyond simply applying neoliberal principles and orthodox policies. We argue that the contours of a new developmental model can be traced when analysing the economic and social policy mix of Lula, and we have presented the most important elements lying at the corner of the model.

Main cornerstones of the new model were structured as follows: 1. the new social contract - macro neo-corporatism; 2. pragmatism in policy-making, raising the quality of the policy-making process and institutionalization of the new developmentalist bias; 3. low-inflation regime and macroeconomic stability backed by conservative fiscal and monetary policy; 4. strong commitment to promote economic growth and the central role of state interventions and active industrial policies – complementary microeconomic policies; 5. poverty reduction programmes (social safety nets) and productive inclusion – progressive social policy. Not just the particular mix of these policies but also (or even more importantly) complementarities and linkages between them constitute the new developmental approach of Lula.

We have also highlighted that the special policy mix of the Lulismo was not the result of a conscious, ideology-based or 'imitation' process, rather an outcome of a pragmatic approach,

a learning-by-doing process, and recent experiences under Dilma Rousseff have shed light on the fragility of the results and the model itself.

From a short outlook to Rousseff's policies one could argue that though the first and the last element of the new model (the new social contract and transformative social policies) seem to have been institutionalized strong enough, but the continuity with the whole model seems to falter on the macro- and micro-economic policies and on the interactions between the five elements, as well as the changing external context (resulting in much harder budgetary constraints to finance social policies and thus leading to unavoidable political choices on the medium and longer term).

The most important lesson from the Brazilian experience is, as Wylde (2012:182) puts it: an economic growth regime and a low-inflation regime need not to be contradictory, *“... as while a low-inflation regime may sacrifice some of Brazil's growth potential, it is in order to ensure concrete gains for the poorer classes who are the most vulnerable to inflation. Lula has thus been a pragmatist, adapting quickly to new circumstances and operating within the 'limits of the possible' due to imperatives imposed on any developing country in the context of globalisation and characterised and shaped by the principles of neoliberalism.”*

On the other hand we have also highlighted that the inclusion of the poorest parts of the society into the growth and development model of Brazil has to be seen as an essential attempt to develop the domestic market (via growth multipliers in work), and unlock the 'dead potential' of the poorest and the informal sector (as described originally by de Soto (1989), which could also serve as an important additional feature of the new developmentalist model in Brazil and complement its “open economy” approach with a stronger domestic-orientation to get a more balanced model.

Conclusions

To conclude first we highlight some key lessons from the Brazilian case, and then turn towards a higher level of abstraction and try to formulate some more general consequences regarding the new developmental state concept of the twenty-first century.

There are at least three positive and two more challenging lessons resulting from the analysis of the new developmental approach on Brazil. We are convinced that experiences of Brazil,

and especially the new policy model under Lula can be useful for other developing or emerging countries (but also the more developed ones), at least in three ways: First, Lula has shown to have learned the historical lesson of the Brazilian political economy, that high inflation has hit the poor and most marginalised groups of the society the most and in any democratic regime, the inclusion of these social groups is an essential component of social stability and sustainability. The *commitment to a low-inflation regime* was therefore a *historical imperative*. The second important insight comes from the current processes of globalisation (with heavy emphasis on financial globalisation), and concerns the *global imperative* to maintain the confidence of foreign capital and investors to be able to secure macroeconomic stability (and decreasing financial vulnerability) in an open-economy model. The third important insight of the Lula period (which we could call *democratic or political imperative*) concerns his abilities to form new socio-economic alliances and build up political support to his regime on a considerably wide electoral base, consisting of a wide-range of social groups with often contradictory and conflicting needs and aims. The ways and how Lula could balance among these led to a *pragmatic approach*, and in some aspects to more moderate results, but seems to be a more sustainable path of development, than previous Brazilian attempts and models (or other Latin American experiments).

We highlight two further, more challenging implications of the Brazilian experience. First, though *pragmatism* is mostly cited in a positive terms regarding the Brazilian political economy (see e.g. Pinheiro et al., 2007:73). Pragmatic policy-making contains however severe risks regarding the outcomes as achievements in certain policy areas might be destroyed by opposing trends resulting from changes in other policy areas. Pragmatic policy-making is thus a *double-edged sword*, which might lead to good results in hands of a strong leader with strong commitment to a well-determined developmental vision, but also falter under different circumstances⁴². We have shown in the outlook to the Rousseff period the fragility of the Lula model (that even has put in question whether the Brazilian policy model can be called a new developmental regime as Wylde (2012) argues using Pempel's (1999) developmental regime theory).

⁴² This is well illustrated by the so called „succession crisis” in many Latin American countries, where after the retiring of the first generational charismatic leaders of the 'pink tide', the successors tend to get in trouble to follow the paths paved by the new left regimes. In most cases this leads to moves towards more moderate politics of the centre, but at the same time results internal challenges posed not only by traditional opposition groups but also by actors of their (previously) supporting constituencies.

The second challenging insight from the analysis of recent Brazilian experiences underlines, that though economic growth should not be a developmental objective per se (as it should be rather development in wider sense according to the Senian approach), still economic growth is necessary (in the sense that it facilitates) to achieve advances in other areas of development. The promotion of *economic growth* (in a pro-poor and equitable manner) comes back to the development agenda, and with it the strengthened role of the state is also legitimized (not least through a new and re-defined, but pro-active industrial policy).

Finally to sum up, the key elements of the new Brazilian development model have comprised 1. a new social contract, 2. pragmatic (problem-driven and adaptive) policy-making; 3. macroeconomic stabilization and good macroeconomic management, 4. a cautious microeconomic reform agenda and 5. productive and transformative social policies (and all this within the context of global commodity boom). We have highlighted, that on the level of political settlements, and the socio-economic alliances the building of a broad consensus among the key actors of the political spectrum, the business sector, the labour movement and civil society was a key ingredient. A new social contract helped to ensure the positive engagement with the reform programme, and thus was a critical element to success.

As we have noted earlier as a result of high economic growth (driven in part by the global commodity boom) social expenditures could grow in both absolute and relative terms during the Lula period (thanks to the large expansion in fiscal space), and made it possible that inclusive and innovative social policies could expand without endangering existing constituencies. On the medium (or longer term) in the context of low economic growth (and taking into account the limits of the government's revenue raising capacity – as signalled by several waves of social demonstrations during 2014 and 2015) it is highly unlikely the expansion of the social budget can go on, conflicts will arise over budgetary allocations among the traditional beneficiaries of social policy (like civil servants and formal sector workers) and the newly included groups (the poor and informal sector workers)⁴³. This might result in tough political choices for Rousseff or any forthcoming government and represents an important challenge for the Brazilian political economy in the near future and also for the new developmentalist approach.

⁴³ According to Amman and Barrientos (2014:14) to financial budget of the public social insurance fund of 2.5 million civil servants equals approximately the total amount of the Bolsa Família and the two non-contributory pension programmes, which together cover about 20 million households.

Finally we sum up some concluding considerations resulting from our Brazilian case study but valid on a higher level of abstraction and representing some minimum requirements for any developmental state in the twenty-first century if it wishes to successfully contribute to economic and social development under the new circumstances provided by the new challenges as presented in the introductory part of our paper.

The application of the human capabilities approach to development (also referred to as the new paradigm of development) has to be based on a new social contract (overarching the entire social spectrum, and especially including the poorest segments of the society, the disadvantages and marginalised groups) and leads to a focus on productive and transformative social policies, but has essential consequences for economic policies on both macro- and microeconomic level. Whatever innovative solutions and complementary policies, productive inclusion and transformative social policies require adequate funding, which in most cases of developing and emerging countries means raising social expenditures. The Brazilian case, especially under the governance of Lula has proved however that rising social budget must not necessarily endanger fiscal sustainability.

The restructuring of the world economy and the expansion of the knowledge economy (and new economy) put the active role of state in promoting economic growth back on development agenda in the twenty-first century. The Brazilian experiences have shown however that the open economy approach and the domestic development alternative can go hand in hand and a proper balance of outward-orientation and a complementary focus on domestic market development might be reached.

Policy changes in domestic and international level (expanded embeddedness and globalizing values due to new information communication technologies, mass and community media) lead to a focus on responsiveness of policies to social needs implied in the prevailing social contract and finally should result in a more problem-driven, iterative and adaptive policy-making approach (as described by Booth, 2015a, see also Andrews et al., 2013) and decreasing the role of ideological debates in formulating public policies.

Though ever urging agrarian and environmental issues were left out from our Brazilian analysis, as these constitute to be missing elements (or maybe more negative characteristics of the new Brazilian socio-economic development trajectory). It can be however seen even from the Brazilian experiences that agrarian and environmental development require an active state involvement in the twenty-first century to comply with a more balanced and sustainable

approach of development (including all dimensions and components). While fiscal constraints might call for innovative solutions, the focus on development in agri-business and/or green technology might also serve as driver of economic growth in the medium or longer term.

Finally our analysis has supported that a special public policy mix is necessary to promote socio-economic development, and the interwoven elements of economic and social policies taken together can have larger effects than they do separately. However there are no generally valid recipes to development, development strategies are “context-specific” (contingent upon time and space and thus not replicable) even in the twenty-first centuries globalized world. However we have argued in line with Fosu (2013) that there are sufficient commonalities across countries to draw useful lessons for other, less successful, countries that share similar characteristics, currently or historically.

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