

Brazil: Strengthening Resilience through an Innovative Income-led Strategy

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Peripheral countries usually encounter significant economic problems as a result of external factors. Brazil is an example, since its economy has always been extremely affected by international crises. The external debt crisis of the 1980s and the 'financial globalisation' crisis in the 1990s all caused private capital to suddenly stop flowing into Brazil, demanding restrictive domestic policies and resulting in low economic dynamism and growing unemployment.

The current situation is quite different, despite the most recent crisis being deemed the 'biggest economic crisis since 1929', and the Brazilian economy is showing some resilience, based on an innovative income-led strategy. To understand it, it is necessary to analyse the two dimensions of this resilience: external and internal.

The external dimension: From 2003 to 2007 world economic growth was very high, led mainly by China and its international trade. This benign external environment was particularly positive for commodity exporters, since its terms of trade reached historical records.

Brazil took advantage of this context, obtaining current account surpluses that allowed its government to adopt an aggressive strategy of accumulating international reserves, which grew from USD39 billion in January 2003 to USD208 billion in September 2008. When Lehman Brothers failed, the Brazilian economy was thus relatively well protected on this external front. After a brief "sudden stop" in 2008, a "sudden reversal" (Biancarelli, 2012) occurred, and Brazilian international reserves began to rise again.

The internal dimension: The important point, however, is that Brazilian resilience was not limited to the external dimension. Although the initial economic stimulus came from the external front, it has been internalised.

The idea behind the policies of the Workers' Party-led government was that a 'mass consumption market' might be seen as a dynamic market. The aforementioned external stimuli made it easier for the government to foster this internal market, mainly through the expansion of social policies. The most important ones include:

i) Bolsa Família: the result of the unification of various cash transfer programmes aimed at fighting poverty and hunger through the direct transfer of cash to poor families. The programme provides families with a modest amount of funds, but, according to some researchers, the multiplier effect has been around 1.8. The programme grew quickly, serving around 6 million families in 2004 and 14 million in 2012 (approximately 25 per cent of the Brazilian population). Its cost in 2012 was around 0.5 per cent of Brazilian GDP, an extremely low-cost programme when compared to its scope and importance for Brazilian society.

ii) Minimum wage policy: the annual average of its real growth was 6.6 per cent between 2003 and 2010 (2 percentage points above the 1995-2002 average). It is particularly important in Brazil because the minimum wage is an anchor for the revenues of almost a quarter of its population.

In addition to these two policies, some other measures were important to foster economic growth and strengthen economic resilience— notably:

credit policy, with an important role played by the public banks, increasing the share of credit from 25 per cent of GDP in 2003 to 45 per cent in 2010; public investments, mainly those made by state companies; and the increase in formalisation of the labour market, with 13 million formal jobs created between 2003 and 2012.

The achievements of these policies have been remarkable. Estimates show that poverty in Brazil has been reduced by 50.7 per cent from December 2002 to December 2010. It means that Brazil achieved one of the Millennium Development Goals in eight years. Nevertheless, what really constitutes a novelty in the Brazilian economy is that this process is the result of economic growth alongside income redistribution. The Brazilian Gini index fell from 0.58 in 2003 to 0.53 in 2012.

Income distribution: beyond a social issue, a strong economic engine

All these interrelated phenomena have created a virtuous circle of income distribution and economic growth. This must be highlighted because it is a novelty in Brazilian history and something rare in the world today. Moreover, it allowed the source of economic dynamism to be internalised: if exports formed the main contribution of GDP growth in 2003/4, after that they were replaced by the contribution of household consumption. In this context, the Brazilian economy has proved much more resilient to the negative effects of the 2008 financial crisis.

Brazilian external vulnerability is lower now than it was in 2002. Biancarelli (2012) shows that the data for 2002 and 2012 were, respectively: international reserves/external debt: 20 per cent vs. 119 per cent; external debt/GDP: 45 per cent vs. 15 per cent; external debt/exports: 3.5 per cent vs. 1.3 per cent. Moreover, there has been an increase in the share of foreign direct investment in financial account flows and of external liabilities denominated in Brazilian Reals instead of US dollars. Internally, although there has been a deceleration of economic growth, the unemployment rate has continued to decline— reaching a historical low of 4.3 per cent in December 2013.

The first important question to be raised is: are these achievements perennial? The answer is 'no'. They depend on **political will** and **economic growth**. The second important question is: is this model of growth exhausted? Again my answer is 'no'. Nevertheless, it will depend on higher rates of investment, both public and private, mainly in infrastructure.

Brazil is still one of the most unequal countries in the world. Continuing to reduce such inequalities remains simultaneously a matter of **social justice** as well as a driver of **economic growth**. This task should continue to be pursued through two complementary channels: income redistribution and the improvement of public goods and services.

References:

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