

Book Review

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Laura Carvalho. *Valsa Brasileira – Do boom ao caos econômico*. 2018. São Paulo: Todavia Ed.

“The Back and Forth of the Brazilian Political Economy in the Twenty-first Century”

Trying to figure out why the Brazilian economy went from a promising period of growth to a stagnant phase of high unemployment, negative public investment, and low household spending is the chief concern of Laura Carvalho’s *Valsa Brasileira – Do boom ao caos econômico*. As the title suggests, the boom and bust of the Brazilian economy in the first two decades of the twenty-first century can be equated to a strange waltz of disconnected movements leading the largest Latin American economy to the crisis point, with sluggish growth, unmet expectations, and no light visible at the end of the tunnel. Carvalho’s book focuses on the years of the Workers’ Party administrations: the two terms of President Luiz Inácio Lula da Silva (2003–2010) and those of President Dilma Rousseff (2011–2016), whose second term was cut short by a successful impeachment process in the Brazilian Congress.

An economist with a Ph.D. degree from the New School for Social Research, faculty member in the Economics Department at the Universidade de São Paulo, and columnist for the *Folha de São Paulo* newspaper, Carvalho examines in detail the causes of what is known in Brazil as the *milagrinho* (the little miracle) and why it later collapsed. With reference to a previous Brazilian miracle—the period of impressive economic growth in the late 1960s and early 1970s when the military governed the country—the little miracle in democratic Brazil allowed the country’s GDP to grow an average of 3.4% (between 2003 and 2005) and then 4.5% (between 2006 and 2010), against a prior average of 2% (1980–1999), before a collapse of –3.5% in the 2015–2016 period (12–13).

In her description and analysis of the Brazilian waltz, Carvalho sees that the Lula administration moved a step forward within the contours of a political economy characterized by deep socioeconomic inequalities, high interest rates favoring a noncompetitive banking system, and

a gradual process of deindustrialization in a developing country that was not fully industrialized. With a bit of luck, but not only that, the Lula administration benefitted from a highly favorable external economic environment when China became an avid importer of commodities, thus allowing the growth of Brazilian exports, mainly soybeans, iron ore, and oil. While the commodities boom led to a GDP growth in Brazil of 5.8% in 2004, Carvalho explains that after 2005 “the increase in exports lost impact, and the domestic market started to grow faster thanks to the expansion of both household spending and investments” (19). The economic improvement, or *milagrinho*, according to Carvalho, was the result of a series of economic policies implemented during the Lula administration: income distribution, incentives to families to access credit for consumer goods and housing, and, finally, a program of public investments in highways, energy projects, ports, and airports.

In an attempt to build a welfare state to counter the effects of the neoliberal economic policies of previous administrations,¹ President Lula emphasized income distribution policies such as *Bolsa Família*, or family grant, a monthly government stipend to those living below the poverty line, and minimum wage increases of 6.8% between 2003 and 2005 and of 5.9% between 2006 and 2010, against a rise of 1.8% from 1999 to 2002. In contrast to negative indicators between 1999 and 2005, federal investments in Brazil grew 27.6% during the second term of Lula’s administration. In the same period, the total investment (private and public) also increased by 9.1% against previous meager rates (12).

At times when the world economy, and particularly the most developed countries, were struggling with the effects of the great recession (2007–2008), the Brazilian economy was growing, and the results were visible. As Carvalho states: “Between 2004 and 2010, Brazil, in addition to high growth rates, also achieved a reduction in social and regional disparities, salary increases, rise in employment, improvement in government accounts, in addition to control over inflation. Investment grew 6.7% on average, above the growth of consumer spending at 4.5% per year” (10).

The enormous development challenges that the Lula government intended to address, however, were soon entangled in missteps of the strange waltz. Against a GDP growth of 7.5% in 2010 (the last year of the Lula administration), President Dilma Rousseff, in the first year of her first term (2011) was already facing an economic slowdown. The economic policies of income redistribution with cash transfers to the poor, the consumer credit stimulus, and the public investments that had sustained the *milagrinho* had lost appeal, and a new emphasis was placed on incentives to the private sector (40). Although the end of the commodities boom can justify the economy’s going sour, Carvalho points to a succession of economic policy errors. Despite its

¹ After twenty-one years of military governments (1964–1985), Brazil initiated a process of democratization with the return of civilian rule under President Tancredo Neves, who died in a hospital one day before his inauguration and was replaced by President José Sarney. In 1989, with the return of general elections, the presidency was won by Fernando Collor do Mello, who adopted a series of liberalizing economic policies in line with the Washington Consensus. A corruption scandal forced his resignation in 1992, and he was replaced by Vice President Itamar Franco. New elections in 1994 led to the victory of Fernando Henrique Cardoso, reelected in 1998.

success in reducing the country's inequalities and lifting thousands out of poverty, the little miracle was unable to rescue a manufacturing sector in its doldrums due to globalization and deindustrialization. Thus, though consumers were ready to buy, the country's industrial sector could not produce, and imports became the "solution." As Carvalho observes, the first lesson of the Brazilian waltz is that "a process of growth based on a dynamic domestic market requires an industrial policy focusing on the diversification of the productive structure" (45), intended to prevent trade deficits and balance of payments distortions.

In the Brazilian income pyramid, those in the middle felt the pain during the *milagrinho* years. Citing 2017 studies, Carvalho asserts that between 2001 and 2015 the poorest 50% increased their participation in the national income from 11% to 12%, but the wealthiest 1% elevated their participation from 25% to 28%. Those in the middle of the pyramid saw a decline in their participation in the national income from 34 to 32% (50–51). In a country where the middle class is constituted mainly by low-income families (when compared to the income of middle classes in developed countries), political opposition to President Rousseff grew fast. The June Journeys of 2013 already signalized the dissatisfaction when millions of protesters took to the streets of the country's largest city, São Paulo, against the "economic squeeze." The inflation of 4.7% between 2006 and 2010, reached 6.2% in 2014.²

Trying to shore up the economy, the government took another step that would prove to be a setback. Different economic sectors benefited from a series of fiscal incentives in the form of the elimination of business taxes aimed at increasing private investments and job creation. Yet, the actual consequence was a significant loss of federal tax revenues, estimated at R\$ 450 billion reais (about US\$ 100 billion based on today's exchange rate) between 2011 and 2018 (71). Despite the tax benefits provided to corporations, private investments did not grow in the period. Following the world trend of so-called financial capitalism, as opposed to productive capitalism, the business sector in Brazil used its capital to invest in government bonds and thus benefit from the high interest rates instead of making productive investments in manufacturing. In the end, the national accounts deteriorated due to the number of government subsidies to the private sector and the loss of federal revenues. Facing a fiscal decline, the Rousseff administration lost its ability to make public investments.

In 2014, Rousseff was reelected for a second term amid a crisis that would lead to her impeachment and removal from power in August 2016 under the accusation of questionable

² There are several explanations behind the 2013 June Journeys. As the country was preparing to host the 2014 Soccer World Cup, some groups organized demonstrations against the sporting event due to its high costs at a time when the economy was slowing down, and social services delivery was becoming increasingly precarious. Another social movement—*Passe Livre*, or Free Fare—took to the streets in several Brazilian cities to demand free public transportation. See "Brazil protests: President to hold emergency meetings," by Jonathan Watts, *The Guardian*, Jun 21, 2013, <https://www.theguardian.com/world/2013/jun/21/brazil-protests-president-emergency-meeting>. Another account of the journeys, which have been placed within more massive world protests such as the Occupy Movement and Arab Spring, can be found in Camila Jourdan, *2013: memórias e resistências* (Editora Circuito, 2018).

budgetary practices.³ As she left, Vice President Michel Temer took office and remained in power until December 2018. During his short term, President Temer also made economic missteps that did not spur economic growth, but rather led to high unemployment and to the astonishing number of one hundred million Brazilians—about half of the country’s population—surviving on an income below the minimum wage, according to a study released by the Brazilian Institute of Geography and Statistics (IBGE) in 2017.⁴

From the virtuous cycle during the years of the Lula administration and its attempts to improve the lives of the poorest without negatively affecting the rich, the Brazilian waltz moved to end the *milagrinho*. Disconnected steps put the country into a dangerous vicious cycle of economic stagnation, unemployment, and low investments during the Rousseff administration and beyond. According to Carvalho, between 2015 and 2016, the back and forth of the Brazilian political economy set the stage for a significant setback now evolving toward “the accelerated dismantling of the fragile Brazilian welfare state” (12).

In this well-researched radiograph of the ups and downs of the Brazilian economy in the last two decades, the author debunks the widespread claim from more conservative sectors that the crisis was the result of an excess of state interventionism in the form of redistributive policies such family grants and increases in the minimum wage. To the contrary, Carvalho claims that the social policies during President Lula’s two mandates produced positive results in terms of economic growth and the reduction of inequalities. However, the waltz acted perversely during President Rousseff’s administration, when the commodities boom slowed considerably, leaving the business class restive. In response, Rousseff implemented economic policies that businesses demanded, including a series of corporate tax reductions that did not produce the expected economic growth. And thus, the miraculous dance ended.

³ Rousseff’s administration was also profoundly affected by the corruption investigations initiated in 2014 by the Federal Police. The so-called *Operação Lava Jato* (Operation Car Wash) has convicted about 160 people, among them several Workers’ Party politicians, including former President Luiz Inácio Lula da Silva. Still jailed are former high-level employees of Petrobras (the state oil company) and CEOs of major construction and infrastructure sector corporations.

⁴ See Daniel Silveira, “Metade dos trabalhadores brasileiros tem renda menor que o salário mínimo, aponta IBGE,” *GI Últimas Notícias*, Nov. 29, 2017. <https://g1.globo.com/economia/noticia/metade-dos-trabalhadores-brasileiros-tem-renda-menor-que-o-salario-minimo-aponta-ibge.ghtml>. The minimum wage of R\$ 998 reais is equivalent to US\$ 236 monthly.

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