

Brazil in the 21st century: A difficult path

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Abstract

Brazilian economic reforms in 21st century have great importance for the international community, especially for other countries of the middle level of development. The authors believe that, in spite of all the difficulties and crises, Brazil has made a decisive step forward by reforming its social structure and retaining democracy. Social reforms (especially minimal wage) led to strengthening middle class, but also to elevating its social aspirations. At this dramatic junction the economic development of the country was aggravated by external shocks and unsuccessful budget policies. The complex interaction of social macroeconomic policies in Brazil with strong external shocks gives lessons to countries with similar characteristics. The pandemic and recession of 2020–2021 have made the path of development more complicated but there is room for optimism for Brazil in the long run.

Keywords: Brazil, economic reforms, middle income level, crisis.

JEL classification: D31, D63, D72, E32, F63, G18, H12, O54.

1. Introduction

Brazil, with its vast reserves of human and natural resources and a huge role in the Latin American region, has every reason to be considered one of the forces determining the future of the world. The country has a complex history, from the period of colonial dependence to the formation of a nation and an elite, and awareness of itself as one of the world's leading powers (Vasilyev, 2020). It has undergone a series of socio-economic crises and dictatorships, and this has led to the realization that socio-political stability is a prerequisite for economic development. Although Brazil has not historically had any messianic or global goals, the demand of the political and intellectual elite for a worthy place in the world has gradually formed. The creation of BRICS has also been a catalyst for further lifting expectations, including raising the question of membership in the UN Security Council. Russia and Brasil are in many ways similar, and

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the modern practice of Brazil can be seen as the most important source of experience for our transformation, which we will try to show below.

This short paper cannot cover all aspects of Brazilian society, economic development, social relations, and domestic politics over the 21st century. These subjects are studied in a large body of existing research of Brazilian authors as well as Russian ones (see De Conti et al., 2020; Krasilshchikov, 2016, 2017; Lazarev, 2019; Simonova et al., 2019). Our task is different: to consider the problems of transformation of socio-economic institutions of the country in the face of external shocks at the stage of development, which is very similar to that of Russia. With significant changes in the level of economic development, many social parameters change the nature of civil society, which begins to influence the political system, including the stability of democracy, freedom of speech, and freedom from corruption. Thus, when we talk of the middle-level development trap, we are, in fact, discussing a rather long period of attempts at a large-scale transformation of the country's socio-economic system. The severe economic crisis of 2015–2017, from which Brazil was recovering with great difficulty, and the subsequent shock of the pandemic and recession in 2020–2021, were blows to social transformation.

Economic reforms, shifts in the social structure, and socio-political changes cannot proceed successfully simultaneously, since they cover different segments of the population, create uncertainty for many groups regarding their position in society, and affect important distributional interests that developed in the beginning of reforms. The latter not only proceed at different speed, but also should not be “torn apart” between the sides of the triangle “economy—social system—society.” In particular, it is necessary that legal and social support should be as stable as possible while drastic socio-economic transformations are underway. For example, the stability of public life and independent judiciary ultimately helped pave the way for success in the United States during the sweeping reforms of the 1930s under F. D. Roosevelt. Long-term political stability, of course, is a condition for successful changes in the economy and social structure, otherwise civil conflict can become inevitable.

The economic crisis of 2015–2017 proved to be important precisely as an external shock in the context of the transformation of Brazilian society and economy. Leaving aside much of the history of economic fluctuations in the country's economy in 2003–2021, we propose to pay attention to four key questions regarding the development of Brazil during this period. How, starting from the most difficult conditions (dictatorship, inflation) in 1980–1990s, did the country manage to grow for as much as ten to eleven years? To what extent did the methods or reforms applied then contribute to positive shifts in such fundamental areas as the level of development, poverty, and inequality? What went wrong and why was this rise followed by the Brazilian Great Depression of 2015–2017 (with a slight revival in 2018–2019), a collapse of expectations, trust, impeachment of one president, and a prison term for another? Can the same method be used successfully in Russia without repeating Brazil's mistakes?

2. Brazil in the middle-level development trap

The effect of a slowdown in per capita GDP (PPP) between \$10,000–\$11,000 and \$14,000–\$15,000, called the “middle-level development trap,” is not just

a slowdown in economic growth, but a systemic problem of changing distribution, social institutions, and a change in the type of economic growth that involves greater efficiency of the economy and more intensive use of human capital. This expanded understanding of the middle income trap (as synonymous) is presented, for example, in Grigoryev and Pavlyushina (2016).

Brazil's first set of traps includes dictatorship, stagnation, and hyperinflation. The second one consists of huge initial social inequality, insufficient productivity and poor competitiveness of its national industry, high exchange rate, low level of education in poor regions, and undeveloped housing construction. Finally, the third set of traps covers the volatility of growth and difficult problems of structural reforms in public finance (pension reform, social services). Brazil is currently in the process of tackling the second and the third traps. Brazilian economists propose a similar concept of the liberalization trap: trade liberalization leads to an increase in imports and a drop in exports of manufactured goods, financial liberalization—to a loss of control over capital flows, which in total results in de-industrialization and low economic growth (Bresser-Pereira et al., 2020). The third set of traps will have to be tackled in difficult conditions of the pandemic and a new recession. One researcher's diagnosis of the current Brazilian situation is as follows: "A very heterogeneous economy, with a polarity between modernization and marginalization, shaped by income concentration that combines high-tech industries with nearly predatory exploration of natural resources" (Albuquerque, 2019, p. 54).

To answer how Brazil's economy and society are trying to get out of the trap, it is necessary to consider the main events and development factors in the economy over the past two decades. In the late 1990s, Brazil experienced unsustainable growth, frequent recessions, and suffered from extensive unemployment and high inflation (Fig. 1). Taking into account the archaic structure of the economy and historical imbalances, Brazil was in a trap according to many parameters, including the level of GDP (PPP) per capita of \$11,500.

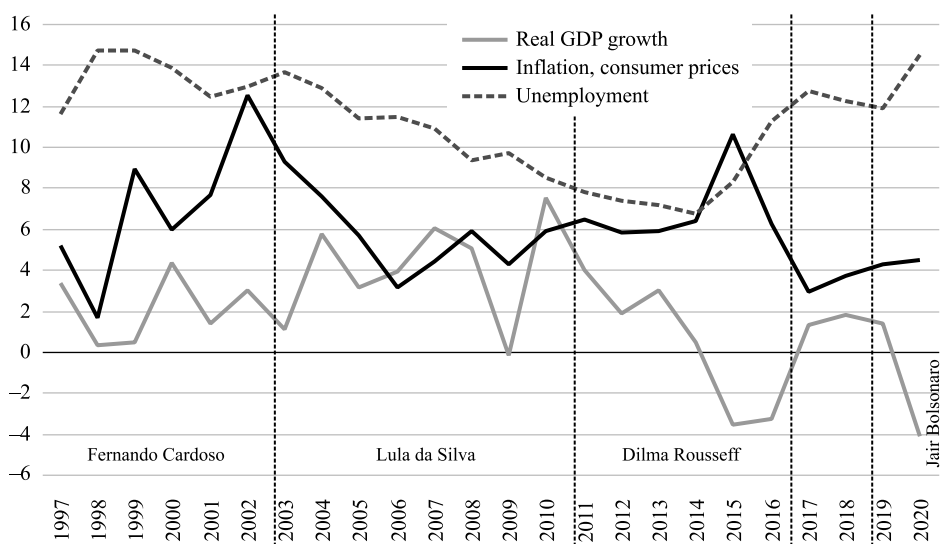


Fig. 1. Real GDP growth, inflation and unemployment in Brazil, 1997–2020 (%).

Source: Compiled by the authors based on IBGE and IMF data.

The start of reforms in Brazil is usually set at 2003—after the election of Luiz Inácio Lula da Silva (traditionally just “Lula”) as president of Brazil, with an exceptional majority of 61.3% (see Table 4). Lula was very careful in promoting left-wing ideas. His rise to power was not an attempt at a social revolution. He did not raise the issue of redistribution of property or radical change in the situation of the poorest segments of the population in the Northeast (regional perspective) or in *favelas* (social urban perspective). On the contrary, Lula da Silva tried to expand socio-political support for shifting his generally moderate program to the political center, and to the right of the center, to move away from the old model of life that society was so tired of. His government was more professional than partisan, as the country in particular is dominated by traditional multi-party coalitions.

In the summer of 2002, during the presidential debates, the future president addressed the people, outlining his attitude to reforms, which we can describe as optimistic, moderate and complex (economic, social and political): “Brazil wants to change. Change to become peaceful, developed and open to a new state. To change to achieve economic development, which we do not have today, and the social justice to which we so aspire. There is a great desire of the people in our country to end the current cycle of economic and political development. In all classes and in all regions, the feeling prevails that the current model has exhausted itself. Therefore, the country cannot insist on this path for fear of remaining in chronic stagnation, or sooner or later, suffering from economic, social and moral collapse. Most importantly, however, the country continues to remain optimistic and resist the despondency and sadness that could lead to a destructive protest” (Da Silva, 2002). Note that in the approach of President Lula there was no sharp anti-oligarchic rhetoric, unlike 70 years earlier under F. D. Roosevelt.

3. Macroeconomic conditions for reform

External conditions for growth in the 2000s were the best for a long period of time—before or since then. First of all, there was a general global upswing: in 2003–2008, the world’s GDP grew by an average of 4.7%. The rise in the price of exports gave Brazil an influx of financial resources, which even the crisis of 2008–2009 broke for only a short time. This is a unique situation that not all countries have benefited from, but Brazil has been able to take advantage of the favorable external situation, including for the overall recovery of the economy.

Economic growth continued in 2004–2014 with a break for the acute but short crisis of 2009. Brazil was then a “country of the future” that had achieved the status of a sustainable democracy and whose image and position at the international level had been steadily strengthening (Davydov, 2012). By the end of this period, the 2014 election, it was possible to declare a certain macroeconomic success—output had risen from \$11,500 to \$15,900 of GDP (PPP) per capita, significant shifts in the social structure of society had occurred, and the real exchange rate of domestic currency to the dollar strengthened from 3.1 to 2.2 (Table 1). Household consumption had dramatically increased because of the strong real through imports of manufactured goods, while domestic industry essentially stagnated (Fig. 2).

Table 1
Brazil's main macroeconomic indicators in 2000–2021.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Population, million people	173.8	176.2	178.5	180.7	182.9	185.0	187.1	189.0	191.0	193.0	194.9	196.6	198.3	200.0	201.7	203.5	205.2	206.8	208.5	210.1	211.4 [#]	212.8 [#]
Real GDP, % to prev. year	4.4	1.4	3.1	1.1	5.8	3.2	4.0	6.1	5.1	-0.1	7.5	4.0	1.9	3.0	0.5	-3.5	-3.3	1.3	1.8	1.4	-4.1	5.3 [#]
Nominal GDP, U.S. dollar trillion	0.66	0.56	0.51	0.56	0.67	0.89	1.11	1.40	1.70	1.67	2.21	2.61	2.46	2.47	2.46	1.80	1.80	2.06	1.92	1.88	1.43	1.5 [#]
GDP per capita by PPP, thousand of 2017 international dollars	11.7	11.7	11.9	11.9	12.4	12.6	13.0	13.6	14.2	14.0	14.9	15.4	15.6	15.9	15.8	15.1	14.5	14.6	14.7	14.8	14.1 [#]	14.6 [#]
Export of goods, U.S. dollar billion	55.0	58.1	60.3	73.0	96.3	118.7	137.7	160.5	197.8	152.9	201.8	255.9	242.3	242.0	225.0	191.0	185.2	217.7	239.3	225.4	209.9	
Import of goods, U.S. dollar billion	55.9	55.4	47.1	48.3	62.7	73.5	91.2	120.5	173.1	127.8	181.8	226.2	223.4	239.7	229.1	171.5	137.6	150.7	181.2	177.4	158.9	
General government total expenditure, % of GDP	34.5	36.2	38.9	41.0	38.2	39.8	39.2	37.6	37.4	37.1	39.9	37.6	37.2	37.4	38.5	38.5	39.6	38.3	37.7	37.3	42.7	36.9 [#]
General government net lending/borrowing, % of GDP	-3.3	-3.2	-4.4	-5.2	-2.9	-3.5	-3.6	-2.7	-1.5	-3.2	-3.8	-2.5	-2.5	-3.0	-6.0	-10.3	-9.0	-7.9	-7.1	-5.9	-13.4	-6.3 [#]
General government gross debt, % of GDP	65.6	70.1	78.8	73.8	70.1	68.6	65.8	64.1	62.3	65.5	63.0	61.2	62.2	60.2	62.3	72.6	78.3	83.6	85.6	87.7	98.9	91.8 [#]
Current account balance, % of GDP	-3.8	-4.2	-1.6	0.7	1.7	1.5	1.2	0.0	-1.8	-1.6	-3.6	-2.9	-3.4	-3.2	-4.1	-3.0	-1.3	-0.7	-2.2	-2.7	-0.9	-0.6 [#]
Domestic currency per U.S. dollar, period average	1.8	2.3	2.9	3.1	2.9	2.4	2.2	1.9	1.8	2.0	1.8	1.7	2.0	2.2	2.4	3.3	3.5	3.2	3.7	3.9	5.2	
Unemployment, % of the total labor force	13.9	12.5	13.0	13.7	12.9	11.4	11.5	10.9	9.4	9.7	8.5	7.8	7.4	7.2	6.8	8.3	11.3	12.8	12.3	11.9	13.2	14.5 [#]
Gross national savings, % of GDP	15.1	14.5	15.9	17.5	19.6	18.7	19.0	19.8	19.8	17.2	18.2	18.9	18.0	18.5	16.4	14.4	13.6	13.9	12.9	12.7	14.5	14.8 [#]
Inflation, average consumer prices, %	7.0	6.8	8.5	14.7	6.6	6.9	4.2	3.6	5.7	4.9	5.0	6.6	5.4	6.2	6.3	9.0	8.7	3.4	3.7	3.7	3.2	4.6 [#]

Note: [#] IMF estimations.

Source: Compiled by the authors based on IMF data, IMF WEO, April 2021 and IMF WEO Update, July 2021.

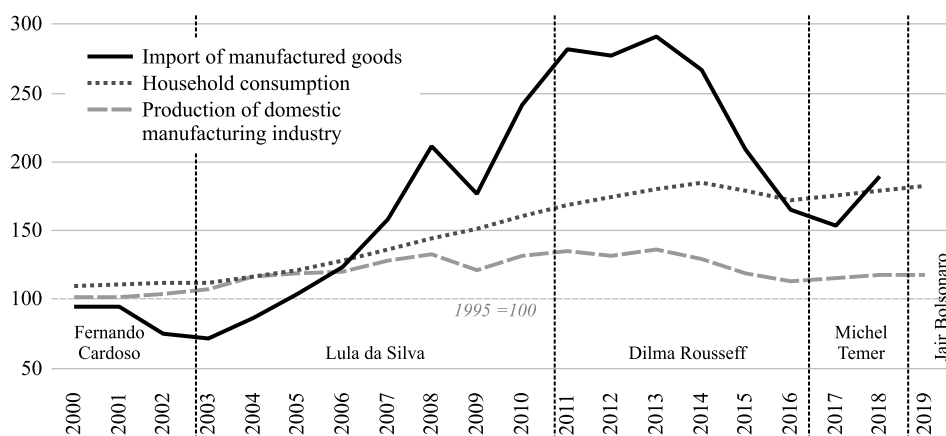


Fig. 2. Brazil's household consumption, import of manufactured goods and industrial production, 2000–2019 (% , 1995 = 100%).

Source: Authors' calculations based on IBGE and UN Comtrade data.

The increase in income significantly boosted demand for consumer goods, but income growth at this rate was not ensured by a rise in the competitiveness of the national industry. In fact, with these high growth rates of GDP, it was possible to reduce the relative size of the general government debt, strengthen the real exchange rate further, and reduce both unemployment and the budget deficit. Investment had also increased from 15–16% of GDP under President Fernando Cardoso (1995–2003) to an average of 18.8% in 2004–2013. We would also highlight the huge role of the Brazilian Development Bank, which provided investment financing and the implementation of a “soft” industrial policy.

However, two large and critical areas of the economy were left without an attempt at deep reform. The question of implementing a large-scale industrial policy to improve competitiveness radically on the supply side was not even on the table. The world's perceptions of this were sharply negative, and the effectiveness of industrial policy was considered low (in many respects fairly). And the high value of the Brazilian real, which was strengthened in large part by the development of Brazil's oil production, had also become an obstacle to the development of domestic industrial production. The second area that had not been affected by reforms was public finances in two politically sensitive fields: pension reform and fiscal policy. By the orthodox wisdom of market reforms led by the Bretton Woods institutions, the country would require structural reforms, which could make further development more stable and the crisis (later on) less pressing. It is believed that the lack of consensus between elites about economic development at that time had not allowed for this direction to occur. And it was very difficult politically for the Workers' Party (WP) to pursue rather unpopular pension and tax reforms and implement economic deregulation at the very beginning of its new role (as a presidential party) without its own control in the Parliament. Those reforms had been undertaken at the end of the second decade of this century in a much more difficult economic environment under pressure of the budget and debt crises, and later on—under the pandemic and recession avalanche.

4. Social miracle

President Lula (2003–2011), and then his successor in the WP, Dilma Rousseff (January 1, 2014–August 31, 2016), succeeded in implementing significant social reforms during a period of favorable conditions, which essentially created something uncommon in developing countries: income redistribution. This has led to the emergence of a natural, but not too well-founded, notion that such favorable internal economic conditions of life will not only continue forever, but will also become even more favorable. The terms of trade during this period gave an increase in domestic income associated with a favorable phase of the price situation in the world commodity and food markets. So, the growth of personal incomes of families was not a “redistribution” of the pie from business income (profits and other) in the literal sense of the word, but a “redirection” of the growth of export revenues (in general—rents) in favor of the population. Without the growth of these incomes, social programs would have no initial financial base or would have met with resistance on the side of business. This has happened many times in the world history and usually quickly led to stagnant accumulation and aggravation of political struggle. But in that case, this reaction has been delayed by more than a decade. The growth of the country’s income as a whole also resulted in a significant rise of incomes for both business and government. Accordingly, business received more domestic demand and wider opportunities, and the government could not, in such conditions, increase social programs with one hand and cut pension benefits with the other. It should also be noted that the two presidents of the country from the WP had never had “their” majority in the country’s Parliament for radical reforms on such a broad front.

The general idea was to increase the minimum wage significantly, which is also the basis for calculating pensions and other benefits. This contributed to an effective fight against poverty and resulted in moving some of the employed from poverty to the bottom of the middle class. In January 2016 (in the prices of that month), the minimum real wage reached 900 reais (more than \$250 at the current exchange rate), compared with about 500 reais (\$160) in 2003 (Brito et al., 2017). The decline in the Gini coefficient over the years is estimated from 0.59 to 0.52—an outstanding result. Key points in the program were not only the growth of “reliable” minimum wages, which in 2012 accounted for about 40% of the country’s average working income during those years. The second most important factor was the duration—especially permanence—of raising the minimum wage. This applies to the process of forming middle-class households—a steady level of income allows them to plan for spending, savings, and especially the purchase of durable goods. This method is not the same as Finnish basic income concept, but over the years, families have been able to make significant improvements to their home assets. And the third aspect, although we would put it first in psychological terms, is “breaking up with poverty.” After long periods of uneven economic growth, persistent high inflation and unemployment, the high rate of the real wage gave families access to imported goods, and we are well aware of how significant imported equipment in homes is in demonstrating the well-being and competitiveness of the family and its members. You can imagine the popularity of the president during this period of the life of Brazilian society (2003–2012). In ten years, the fear of poverty had probably been reduced,

Table 2
Social classes as a percent of Brazil's population (%).

Class	Limits of monthly income 2018 per capita, reais	2003	2014	2017	2018
AB	From 8159.37	8.5	15.5	13.6	14.4
C	1892.65–8159.37	37.5	57.5	56.3	55.3
DE	Up to 1892.65	54.0	27.0	30.1	30.3

Source: Compiled by the authors based on FGV Social calculations according to IBGE.

and a new generation had grown up in an environment of rising economic activity, growing prosperity, and democracy.

The change in the actual state of personal well-being can be illustrated statistically. Brazilian statistics provide some tools for analyzing inequality in the country. The definition of the boundaries of the middle class, predominantly used in Brazil (Table 2), is based solely on income, which leads to the fact that the middle class includes those people whose per capita household income is higher than that of some (the poor), but less than others (the rich). In the realities of Brazil, before Lula's presidency, 40 million people who were actually beggars were considered "poor." This "new middle class" includes partly those strata to which, thanks to Lula's socio-economic policies, markets for goods and services have become available. Medical insurance and private schools, the preserve of the traditional middle class, are not available for Class C in Brazil, but are available only for Classes A and B (Singer, 2015, p. 12), the total share of which was only 14.4% in 2018. Moreover, representatives of the traditional middle class have a good education and work related to intellectual effort, creativity and consulting (Salmina and Grigoryev, 2014, p. 464), while in Brazil, access to quality higher education is a problem. It is believed that a third of the workforce lacks competencies for more than unskilled labor (Krasilshchikov, 2016, p. 129). Nonetheless, Brazilians, classified in the C class, are quite active politically, which is inherent in the traditional middle class.

Table 2 shows dramatic shifts in social strata over the period under review. The main shift, naturally, refers to the years 2003–2014, the three terms of the leftist presidents with a good external environment and before the impeachment. We should recall that the minimum wage at the beginning of 2016 reached 900 reais. This means that the minimum wage reached half of the criterion—the boundary between the C and DE classes, although only one-ninth of the lower boundary for the AB class. The upper and upper middle classes have almost doubled over these years (from 8.5% to 15.5%). Note that this AB group is very close in its share to a similar group in Russia (Grigoryev and Pavlyushina, 2017). More important, however, is the sharp decline in the share of the DE class—by half, to 27%.

The minimum wage has played a critical role in this restructuring of society. The results also show geographical differences: the minimum wage is more important in the poorest regions. Among the important social programs adopted under F. Cardoso, it is necessary to note "School allowance" (*Bolsa Escola*), which under Lula da Silva was transformed into "Family allowance" (*Bolsa Familia*), and "Light for all" (*Luz para Todos*) (Krasilshchikov, 2017, p. 120). By 2014, Brazil's population had crossed a certain poverty threshold, meaning that more than 40 million people were no longer in poverty. Moreover, more

than 10% of the population (that is, more than 20 million people) had passed the extreme poverty threshold—a two-thirds reduction in extreme poverty in just twelve years! That was a huge success, but it was hit by political turmoil and a severe recession in 2015–2017.

All BRICS countries are characterized by a mismatch between leading cities and poor provinces, as well as a combination of modern universities and a relatively low educational level of large numbers of the population (in the latter case, the exception is Russia). Brazil's 21st century reforms have set the goal of developing the middle class and increasing consumption in order to expand the domestic market and achieve social sustainability. But at every big stage in societal development, both claims and expectations are usually raised. It should be taken into account that incomes in the country differ sharply not only from class to class, but also from region to region. For example, the average per capita income in the Northeast region is less than half that of the whole country, while in the Southeast region the incomes of the population are more than 30% higher than the national average.

In fact, Brazil is divided into two parts: two northern regions, where the share of lower classes is about 45%, and the rest of the regions with a more even social structure (Table 3). In the Southeast region, there are ambiguous changes in the ratio of incomes of the upper strata; however, an increase in the share of the lower strata, and hence social inequality in the region, is also noticeable. Given that this is the most populated region of Brazil, both the scale of the problem and the need to solve it in the future become obvious. The Central-West region shows almost unambiguously positive dynamics: the number of representatives of the lower strata is contracting, and the higher ones is growing. The compilers of this classification do not give names to the layers, therefore, for a rough estimate of the volume of the middle class in the regions, one can take the layers B2 and C1 located in the middle. Their largest total share is consistently achieved in the South region, which is explained by the highest median per capita income in the region.

5. External shock and social crisis

A severe external shock has dramatically changed the situation: the price of Brazil's export commodities has been going down since 2014, prices in the first quarter of 2015 were more than 30% lower than in the first quarter of 2014. Real GDP and household consumption growth rates became negative: in 2014, real GDP growth was 0.5%, and in 2015 was –3.5%, household consumption was +2% and –3%, respectively. The unemployment rate rose from 6.8% in 2014 to 8.3% in 2015, peaking at 12.8% in 2017. In 2014, the budget deficit was 6% of GDP, then 10.3% in 2015 and 9% in 2016.

Amid difficult macroeconomic situation, social upheaval began in 2013. It started with massive protests against spending money on preparations for the 2014 FIFA World Cup and the 2016 Olympics instead of increasing the quality of social services. In 2014, Dilma Rousseff managed to secure a second term, winning 51.64% of the vote, although some part of society began to suspect that the results had been rigged and, accordingly, the elections might be considered illegitimate. She was opposed by the press, and during her second term, the president's approval rating fell steadily. It is extremely difficult for a populist

Table 3
Brazil's regional characteristics, GDP per capita, share of the country's population; Gini coefficient.

Region	Year	Nominal GDP per capita, thousand reais	Percentage of population	Gini coefficient	Share of social class, % [#]					
					A	B1	B2	C1	C2	DE
North	2012	15.7	8	0.544	1.5	2.5	11.2	14.4	28.2	42.1
	2019	20.9	9	0.537	1.3	2.8	8.6	13.8	26.7	46.8
Northeast	2012	11.9	28	0.546	1.1	2.1	10.2	14.9	24.5	47.2
	2019	16.9	27	0.559	1.3	2.3	9.1	14.8	26.4	46.1
Southeast	2012	32.2	42	0.517	3.3	7.0	22.7	27.3	23.9	15.9
	2019	40.0	42	0.527	3.1	5.6	20.5	25.1	26.3	19.4
South	2012	27.0	14	0.478	3.2	6.3	21.3	29.0	24.5	15.6
	2019	38.0	14	0.467	3.0	5.3	21.3	26.6	28.1	15.7
Central-West	2012	30.3	7	0.535	3.7	5.7	20.3	22.6	25.9	21.8
	2019	41.9	8	0.507	4.0	5.3	18.8	22.4	28.0	21.5
Brazil	2012	24.1	100	0.535	–	–	–	–	–	–
	2019	34.4		0.539	2.5	4.4	16.5	21.5	26.8	28.3

[#] For 2012, the values for 2013.

Note: The methodology for determining the boundaries of social classes in Tables 2 and 3 differs: Table 2 used per capita income in households, and Table 3 used the ownership of certain household appliances by families and accessibility of services.

Source: Compiled by the authors based on IBGE and ABEP data.

president to pursue a policy of development and reduce financial imbalances at the same time. But she had to, after taking over the presidency for the second time on January 1, 2015, already on September 15, proclaim a policy of austerity, unusual for the Workers' Party and not in line with her own campaign promises. This happened for two interrelated reasons. Firstly, it was impossible to continue increasing the budget deficit and debt without sufficient funds to pay them off. And, secondly, on September 10 the international rating agency S&P downgraded Brazil's sovereign credit rating to "junk" level due to political and economic instability and the adopted deficit budget for 2016. This rating led to an outflow of short-term foreign capital from government bonds, on which Brazil by this time turned out to be very dependent, since they mainly financed the permanent current account deficit (De Conti et al., 2020).

The policy of austerity was aimed at cutting spending by 17 billion reais at the expense of a number of rather symbolic measures (cuts in the president's salary by 10% and reductions in the number of federal ministers from 39 to 29) and some serious ones—repealing the subsidy for the chemical industry and some of the benefits for exporters, and freezing the salaries of public servants.

Against the background of the complication of the macroeconomic situation, social upheavals increased. In 2014, almost simultaneously with the dramatic loss of the home World Cup, a corruption crisis began due to the revealed corruption schemes associated with the state-controlled oil company Petrobras¹ and the subsequent legal proceedings against high-ranking officials, including the former and the current presidents. This led to a sharp weakening of the government's ability to make timely decisions that are adequate to the economic environment. The economic crisis and the fall in income during the budget crisis created another trap: practically any anti-crisis measure in the budget field turned out to be unpopular and could cause new protests. The previous macroeconomic and budgetary policies of the WP were characterized by an increase in spending, debts and attempts to continue social programs with a turn towards mass housing construction. But with the deterioration of the external parameters of the economy, this was very risky. The government no longer had time, a favorable environment, and social cohesion around the social program.

The external shock and internal socio-political instability were hard enough for the government. But it must be emphasized that on the basis of strengthening the material positions of the middle class in civil society, not only gratitude arises, but also demands for increases in living conditions and improvements in the nature of public life, political institutions, and politicians. The demonstrators in 2013, 2015–2016 in large cities involved representatives of the "old and new" middle class, and their demands were quite appropriate to their social position and views: improvement of health and education systems, urban transport and services, rational use of public funds, and absence of corruption—ten years of sustainable life had raised the demands of the country's citizens on politicians. This shows that ensuring the growth of material well-being of the population does not guarantee a pause in raising its demands, including for inclusiveness in determining development priorities, dialogue in decision-making on important social problems.

¹ The anti-corruption judicial proceedings were known as Lava Jato or "Car Wash".

We also may mention a socio-political trap of a sort. The rapid destabilization of the country's macro-financial resilience and the loss of support of populist presidents in the electorate (particularly centrist and even left) were also the result of a complex, partly random combination of factors. In a country with high inequality and a decade of success, it's very difficult to slow down the demands of the electorate and consumer expansion and move to policies to increase competitiveness of own industry given the liberal environment of the time and high dependence on capital markets.

D. Rousseff managed to prove her innocence in the Petrobras case, although she was a member of the company's Board of Directors. However, on December 2, 2015, the lower house of the Congress adopted a petition to consider impeachment proceedings against the incumbent due to other violations, including misuse of public funds and abuse of office. On May 12, 2016, Rousseff was removed from office as president, and on August 31 she was officially impeached, but not prohibited from holding public office in the future. It's important to note that Former President Lula da Silva's 2017 sentence for allegedly participating in inappropriate activities had been finally overturned in 2021.

As a result of the impeachment, power automatically passed to Vice President Michel Temer. The new president was even less popular — his approval rating fell to 3%, which is a world record for disapproval (Lima and Iglesias, 2017). Under Temer's government the austerity policy continued, but it turned out to be not reforms in the full sense of the word, but rather a painful struggle for the survival of public finances. A "spending ceiling" was introduced, that is, government spending in real terms was frozen (except for inflation indexation) for 20 years; the power of trade unions was weakened. The measures were introduced for financial reasons² and excluded the support of the poor. The "spending ceiling" has come under particular criticism, as the country's population is constantly growing (by an average of 1% per year), the number of pensioners is increasing, and the amount of mandatory spending on pensions, education, civil servants' salaries, social security and discretionary spending on infrastructure will remain the same as it was in 2016. These measures failed to stop the growth of public debt due to interest payments, but gradually led to a reduction in the general government budget deficit. The external factor that allowed Brazil to get out of the acute phase of the crisis was not reforms in public finances or other steps for which there was neither time nor sufficient power, but an increase in commodity prices, namely, a surge in prices in the first quarter of 2017 for iron and copper ore and crude oil, which in 2016 amounted to 13.5% of total Brazilian exports.

The dynamics of macroeconomic indicators and the logic of government actions do not give a complete picture of events — it is necessary to look at the crisis through the eyes of the population. The dynamics of the indexes based on the polls shows that the world crisis of 2009 was not so acute for the Brazilian population psychologically: life satisfaction even continued to grow, and the fear of unemployment — to fall (Fig. 3). However, in 2014, the fear of unemployment increased and continued to rise until 2017. Index value in 2015–2018 significantly exceeded the previous peak in 2003, while actual unemployment during the crisis period did not exceed the 2003 level. From this we can conclude that this new cri-

² In 2020, due to the coronavirus pandemic, this restriction was suspended for a year.

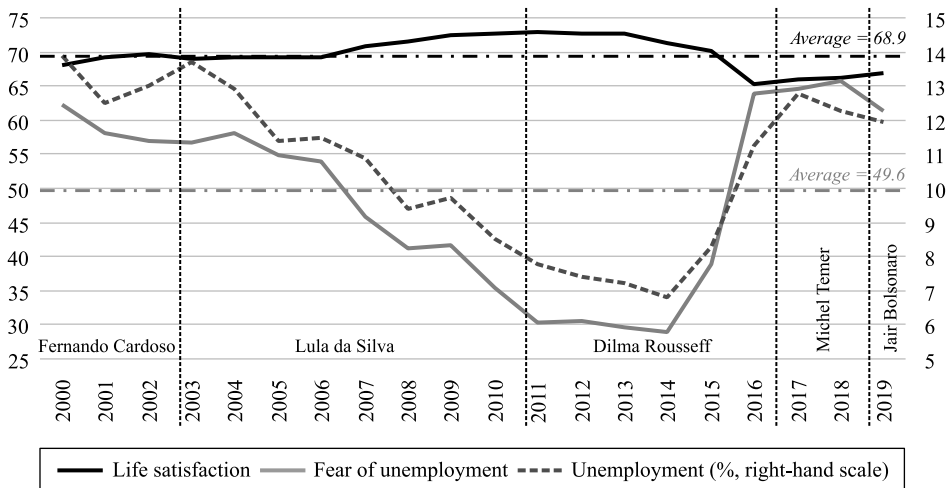


Fig. 3. Brazil's life satisfaction and unemployment fear indexes (average based on surveys) and actual unemployment.

Source: CNI and IBGE-based authors' calculations.

sis, after many years of relative stability, was extremely “stressful” for the population. Loss of a job during a crisis, especially for a long time, throws families back and lowers their social status. And the coronavirus pandemic has caused new problems, so given the unfolding recession and increased unemployment in 2020, we can say that Brazilian society is again under stress. Since 2015, there has been either a crisis or impeachment, or a not very energetic revival, elections and threats of impeachment have taken place. And families feel threatened with a significant step back in well-being.

Addressing why Brazil's long rise was replaced by the most severe crisis is a much more complicated subject than it appears when looking at the charts of macroeconomic indicators. Orthodox (or right-wing) assessments of that period emphasize unsuccessful budgetary policies. Populists point out moving away from politics in favor of the working masses towards compromises with the traditional establishment and the loss of social support. Fatalists stress the fact that constantly high (even growing) export prices could not last forever. The orthodox view of the Brazilian economist Diogo Ramos Coelho (2020, p. 81) gives a harsh assessment of what happened: “Brazil's Great Recession was a mishmash of low productivity, soft tax revenues coupled with growing government expenses, and a political crisis that smashed expectations and confidence.”

6. Right turn

Temer's short administration (August 31, 2016–January 1, 2019) may well be seen as part of the political system's adaptation to economic shocks and crisis in society due to the cognitive dissonance between left-populist tradition and corruption abuses proven in courts. For 14 years (2003–2016), President Lula, his successor, Dilma Rousseff, and the WP tried to maintain a multi-party framework for a complex compromise policy on labor and distribution. But to a large extent it was a factor of personal influence of Lula da Silva, who twice won

Table 4
 Presidential elections and presidents in Brazil, 1994–2018.

Election year	Winner	The share of the winner's votes, %
1994	Fernando Cardoso	54.3
1998	Fernando Cardoso	53.1
2002	Lula da Silva	61.3
2006	Lula da Silva ^{a)}	60.8
2010	Dilma Rousseff	56.1
2014	Dilma Rousseff ^{b)}	51.6
2016	Michel Temer ^{c)}	–
2018	Jair Bolsonaro	55.1

^{a)} Sentenced in July 2017 to 9.5 years of imprisonment, then increased to 12 years, then reduced to 8 years, 10 months and 20 days (Globo, 2019). In total, he was to spend 1 year and 7 months in prison, and since March 8, 2021, all charges against him were dropped by the Supreme Court of Brazil, and he was restored to his political rights.

^{b)} On August 31, 2016, she was impeached for mismanagement of the state budget and abuse of office.

^{c)} Former vice president, assumed the presidency immediately after the impeachment of Dilma Rousseff without elections.

Source: Compiled by the authors based on data from Federal Elections in Brazil. <http://electionresources.org/br/president.php?election=2018&state=BR>

the election with more than 60% support (Table 4). For a long time, there was a chance that he would be able to participate in the 2018 elections. His replacement almost at the last moment by another representative of the WP, the Mayor of Sao Paulo, Fernando Haddad, who was not an actual political heavyweight, and the confrontation of the left and right no longer gave the WP a chance to lever considerable influence.

Jair Bolsonaro's victory in the 2018 presidential election was a reaction of the right to the long-term rule of left-wing populists. Moreover, in connection with the cases of political corruption, they managed to win over a part of the political center and, apparently, a certain part of the beneficiaries of the policies of populist presidents. It's not about the personal gratitude or ingratitude of the electorate, it's about the logic of social and political processes: levelling social inequality, improving education, and social progress lead to expectations of electability, responsibility, justice, equality before the law, and the demand to end corruption.

Bolsonaro may be considered as a member of the traditional upper class, which has been sidelined from power for a decade. This class, relying on its financial resources, the media and the external ally "in the North," had managed to return to power. According to experts, Bolsonaro could win due to the following factors: the cohesion of forces in opposition to the WP; the involvement of economic elites preferring liberal reforms; moral conservatism, including the Church; despair against the background of the socio-economic context and, as a result, the thirst for change in a significant proportion of the population (De Conti et al., 2020).

The new president's program was a blend of traditional right-wing slogans (free gun ownership, pension reform, privatization), an insufficiently serious attitude towards environmental and climate issues, and befriending right-wing world leaders (Donald Trump, Benjamin Netanyahu) (De Conti et al., 2020). The stance of fighting corruption, and his opposition to previous presidents also made a significant contribution to Bolsonaro's victory. During the election campaign, the future president promised to eradicate corruption and crime and solve

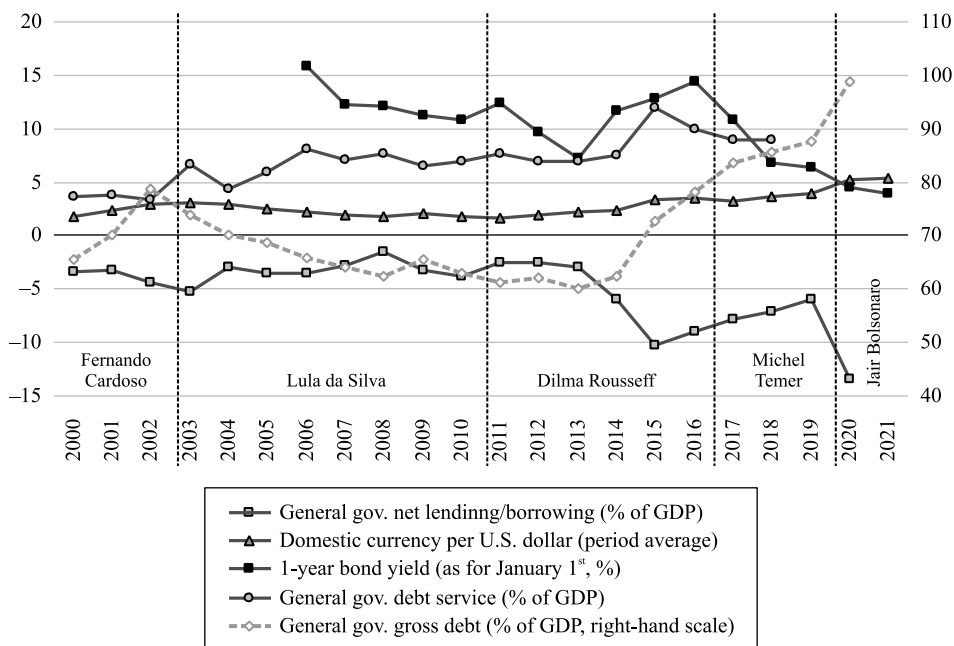


Fig. 4. Public debt and spending indicators in Brazil, 2000–2021.

Source: Compiled by the authors based on FRED, IMF, Investing.com data.

the problem of the budget deficit, but did not name specific measures and figures. Bolsonaro hardly touched on such classic Brazilian problems as social inequality and poverty: he became the first president since 1985 who did not mention them in his inaugural speech (Lancet Global Health, 2019).

The president’s tasks during the budget crisis in 2018–2019 included several key changes. Pension reform was not his invention, but an extreme financial necessity inherited from Temer. The share of spending on the pension system in recent years has been 12% of the country’s GDP and has not changed. Fig. 4 shows the scale of budget deficits, public debt and the cost of debt servicing, in particular the rates on annual (exceptionally short) bonds. In addition to the pension reform, the Bolsonaro government launched a privatization program, which was also a forced measure to reduce the budget deficit, as it was observed back in the 1990s (the privatization of telephony, electricity, rehabilitation and privatization of banks) (Grigoryev, 2010, pp. 508–510).

In the current situation, the general government debt, which reached 98.9% of GDP in 2020, is particularly dangerous. Privatization is unpopular: 44% of citizens are vehemently opposed to it, another 17% partially disagree—people fear that Brazil will be “sold out,” the quality of goods or services will remain the same, and their prices will rise (Gielow, 2019).

The public finance crisis began because of the confluence of circumstances and decisions of the Rousseff government, so that the periods of presidents Temer and Bolsonaro were difficult from the start. The latter could not bring Brazil’s economy into a recovery mode, and the COVID-19 pandemic in 2020 caused enormous damage to the national economy and undermined the president’s image.

7. Assessing the impact of the Brazilian crisis (instead of conclusion)

The legacies of the “three and a half” (counting the term of Temer) presidents of Brazil in the 21st century can be assessed in different ways. At the moment, the country is politically divided. The right controls the executive branch, part of the media, and rely on the United States, for which they have become external partners. Some of the businessmen involved in the corruption scandal are serving a prison term. The period of the third recession (since 2008) and the severe COVID-19 pandemic (especially in the *favelas*) have again created a very risky political situation, comparable to the one that prevailed before the 2018 elections.

Intellectual circles are rather gloomy about the events of recent decades. The success of Lula’s policy and the failure of the WP, which could not maintain the multi-party nature of the coalition and the national consensus on many issues, resulted in “political practice characterized by judicialization of politics and the politicization of justice. All this happened with the full backing of large media corporations. With this, Brazil, which had seemed to be headed forward along a new prosperous path, entered once more into ‘preventive counter-revolution’” (Antunes et al., 2018, p. 101).

In the midst of the pandemic, Bolsonaro was forced to resort to populist methods in 2020: within a few months, 60 million Brazilians received payments first of 600 and then 300 reais in the form of “coronavouchers.” In 2021, there is an active debate about repealing the crucial state “spending ceiling” law, passed by the Congress in December 2016 to deal with the debt crisis. According to IMF data, Brazil’s recession was at minus 4.1% of GDP in 2020, which is a marked drop in GDP per capita. Brazil was among the countries most suffered from the coronavirus pandemic. Recovery from the recession would require a significant increase in exports to the US and the EU, especially in the face of recent low prices for Brazil’s raw materials and food exports. However, the fall in the exchange rate (to 5.5 per U.S. dollar) by the end of 2020 squeezed imports and caused some recovery in the national manufacturing industry. But so far, we can rule out the threat of continued stagnation, despite the prolonged social retrenchment of the past few years.

But one can also view Brazil’s history in the 21st century in terms of the path it has managed to steer away from dictatorship in politics and society, and from frequent recessions with hyperinflation in the economy and hopeless social inequality. In a quarter of a century, despite three recessions, the country has not regressed into dictatorship as a way of solving problems in a divided society. The freedom of the media (dominated by the right-wing press) and, most importantly, the decency and independence of courts, which were able to resist corruption in political circles and big business in the most difficult situation, have been preserved. Significant economic growth in the beginning of the 21st century strengthened the position of the middle class, which ensured a certain degree of independence of civil society from oligarchs and the state.

Despite difficult economic conditions, the democratic system endured, and income distribution was partially redrawn in favor of the middle and lower classes, to create a commonsensical forward trajectory for a quarter of a century. This can be considered a success in the decision of the first set of middle-level development traps, when you consider both the poor starting points (social inequality, economic stagnation and hopelessness), and traps in the socio-political sphere

(development of civil society, fight against corruption, stability of democratic institutions and preservation of courts independence).

Brazil's transformation is a living and instructive example of the development of a society with many problems that are characteristic of other countries that have reached the middle level of development, including Russia. Regardless of our assessment of the past period, it should be recognized that Brazil has not yet managed to jump out of the middle-level development trap (in the broad sense of the word). In a more applied approach—and with the preservation of democratic institutions—Brazil remains undecided about a set of problems from the second trap. However, the country's problems can hardly be solved with its currently prevailing social and political structure, characterized by a sharp polarization of political views. The process of leaving the industrial (with agrarian background) stage of development has not been completed.

The experience of Brazil's reforms in the 21st century gives a mixed sense of the possibility of successfully emerging from the various pitfalls of development. This is recognized by Brazilian economists, and not only by supporters of Lula: "It was not easy to pave the road to reform. Institutional reforms are often hard to achieve because it is easier to oppose them than to gather the necessary support to approve them. Frequently, reforms produce concentrated costs and diffuse benefits. In most cases, beneficiaries barely notice the changes, which may arrive slowly and in the long term. But losses are concentrated and immediate. The groups deprived of their privileges will consider reforms a menace—and act to prevent them" (Coelho, 2020, p. 89).

World experience in development and the Bretton Woods institutions have been working for a long time on the stability of the world financial system (IMF); and for the problem of poverty (World Bank). The question of catch-up development for mid-developed developing countries remains open: industrial policy is still a "suspicious pariah" of development theory. Many economic policy measures that were once part of the process of transition of the developed countries from the industrial stage to the post-industrial one are now generally unavailable. China made a breakthrough in development in its own way and is now meeting resistance. But the assumption of macroeconomists that within the market development inequality will decrease as it grows does not yet work—the stylized facts of the last three decades do not confirm this (Grigoryev and Pavlyushina, 2018).

These statements are not only fully consistent with modern institutional theory, but are also applicable for Russia.

- Reforms are desirable during global economic recovery, especially in a country that depends on commodity exports.
- Social reforms can give large groups of the poor some increase in income, but it is important to make the process sustainable.
- The judiciary must maintain its independence, which means less room for reformers to maneuver, but ensures a predictable and stable business climate and tackles corruption.
- The growth of personal consumption should, if possible, be ensured not by imports, but by domestic production; the question of industrial policy remains.
- Left (reformist) parties in power have to play by stricter rules—there should not be any tolerance of suspicion that they are in any way tainted by corruption.

- Debt financing of public (social) spending inevitably leads to conflict due to fluctuations in income with export dependence.
- No measure of economic policy can be permanent under any external circumstances or applicable without social costs.
- High social inequality is important in restructuring distribution relations, cannot be ignored and should be corrected not so much by changes in redistribution but rather by changes in income.
- The formation of a middle class from relatively poor strata increases the demands of civil society in terms of democracy, social justice and fight against corruption.
- The continuity of the transformational policy should be ensured by parliamentary and public support for 10–15 years.

The country's long-term internal socio-political and institutional problems have not been resolved, and the pandemic and recession are sapping current management and financial resources. Therefore, it is difficult to implement long-term structural economic reforms, as the government is forced to address socio-economic problems on a short-term basis. Presumably, with Lula da Silva's return to the political arena, the 2022 presidential and parliamentary elections will see fierce competition between left and right wings of the electorate. Political confrontation with the split of society and the electorate – another trap – makes us look for new ways of socio-economic modernization.

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