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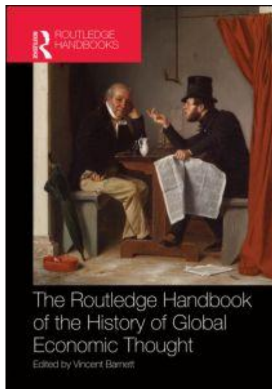

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Brazil

A very big and complicated country

Patrice Franko

Brazilians have a habit of tacking *ão* onto a word to signify its enormous size or importance. *Gordo*, or fat, becomes *gordão*, a really big fat person, or the 2005 corruption scheme of monthly payments to congressmen became dubbed the *mensalão*. Brazil itself might be nicknamed *Brazilão* – a really big complicated country that is difficult to categorize and understand: in the famous words of Tom Jobim, Brazil is not for beginners.

There are multiple Brazils. One can find abject poverty in the largely rural North and Northwest and visitors can become lost in the maze of upscale shopping malls in the Southeast. It is extraordinarily rich in resources – a top global exporter of soya, iron ore, petroleum, and poultry. Yet it is also rather parochial and insular, often inwardly focused on domestic concerns. Like its iconic samba parade at Carnival, it is full of color and sound that may appear chaotic on the surface, but also has a discipline, rhythm, and creativity carrying it forward. Brazil is highly complex and multifaceted.

This chapter explores both the economic ideas and the economic policies of this tropical country with global ambitions. We begin by delving into some of the distinctly Brazilian cultural practices that shape business and policy-making. We then look back to how Brazil's economy evolved to respond to domestic and international pressures, and in relation to the various economic plans that were developed in order to improve it. Rather than a dismal foreshadowing in the joke "Brazil is a country of the future – and always will be," we can see some causes for optimism in the structural changes in the Brazilian economy that have propelled it to become the eighth largest in the world (The World Factbook, 2013). But we close on a cautious note. If Brazil does not push deeply into a new round of reforms – largely in its micro-foundations – it may find its rise to the top of the league tables of global economic players to be short-lived.

Samba and seriousness

Carnival in Brazil invites all to participate in the celebration of sound and dance. Offspring of Portuguese, Italian, Spanish, German, Lebanese and Japanese immigrants mix with the descendants of slaves forced from Western Africa – and a not insignificant number of tourists – to celebrate the pre-Lenten festival. Of course, Brazilians don't need the spirit of carnival to display their warmth and generosity, as it is a relational society. Identity is defined by a web of

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extended family and friends. The country clubs of major cities are populated by people with shared backgrounds in high school and university; it is less common than in the USA to permanently move across state lines. Although an air bridge now served by discount airlines connects Rio and Sao Paulo, the traditional *Carioca* and *Paulista* rivalries remain.

Brazilians invest their time in others. Weekends will find families and friends gathered, often at cafes lining coastal landscapes or in chic malls, shooting the breeze over a well-chilled *chope* or beer. That Brazil has become one of the most networked societies as measured by participation in Facebook or its domestic Orkut is not surprising; Brazilians connect to those they call friends. A foreigner is welcome – and a token of a reciprocal willingness to reach out to become a little bit Brazilian is most appreciated.

Do not, however, allow the late social dinners and the lazy Sundays of *futbal*, or soccer, fool you into thinking that Brazilians don't have a hardworking streak. Both the poor in the informal sector and the professional class put in long hours at work. If a Brazilian is late for a meeting it is more likely attributable to a broken-down bus or long traffic jam than it is to inattention to time. The warm mixing of social classes on a Copacabana beach also belies the rigid stratification in society. Yale trained Edmar Bacha (b. 1942) first coined the phrase *Belindia* in 1974 to capture the notion of a country divided by the elite standards of Belgium entangled with poverty as experienced in India. Although contemporary lines are blurring with the emergence of a new middle class and recent attention has been paid to race as a criterion for access to university, what is often portrayed as a racial democracy is highly segmented along lines of color. A quick visual survey of skin tone on a bus anecdotally confirms that Brazil is the largest African nation outside of Nigeria. Although the sociologist Gilberto Freyre (1900–87) tried to recast modern Brazil as a racial mixing bowl, skin-tone has long been a major determinant of economic class (Skidmore, 2010, 105).

The Brazilian State has historically acted as a broker of the complexities of *Brazilão*. Geographic, economic, and social fragmentations are managed by a state that attempts to drive consensus among widely disparate Brazilians. Finding a way – or as it is called, *jeitinho* – of bridging divides falls to both state and federal agencies. States are powerful in this federal system; through a byzantine system of taxes called the ICMS (Impostosobre Circulação de Mercadorias e. Serviços), states retain resources to proffer regional solutions and garner power. The federal government layers over local solutions with a federal glue, making Brazil one of the highest tax environments in the world. Brokering the different needs of industrial clusters, mega-cities, agricultural breadbaskets, energy wells, and deep rural poverty, the state is often over-reaching its capacity to effectively manage economic transformation. One can also observe a high degree of "leakage," as the state churns European-level taxes, yet glaring gaps appear in the delivery of education, health, or transportation services. *Corrupção* is on the lips of most Brazilians as they explain abysmal outcomes in the social sector or national infrastructure, when improved social well-being fails to materialize.

Economic ideas with a mixed/tropical flair

Brazilian economic policy prescriptions tend toward a pragmatic design. Some countries can be seen as more consistently market oriented, others embrace an active role for the state across the economy. Brazil is less rigid; it often chooses a third way that tries to maximize market returns but with a firm hand of government. Hybrid ideas and policies feature regularly in economic strategies. In taming inflation in the 1980s/1990s, both orthodox and heterodox economic tools were employed – sometimes in the same package. The military regimes (1964–83) employed orthodox macroeconomic tools but embraced state intervention for

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developmental, nationalist ends. In the face of a collapse in investment, a financial crisis and a balance of payments crunch, the inflation stabilization plan implemented by Finance Minister Luiz Carlos Bresser-Pereira in 1987 attacked both aggregate demand and also froze prices – strong doses of monetarist and heterodox approaches (Bresser-Pereira, 1990). Brazilian policy blazes a third way.

Bresser's work gives a flavor of the distinctive Brazilian approach. He was born in 1934, and received his doctorate from The Getulio Vargas Institute in Sao Paulo in 1972, where he advanced (when not active in government) through the ranks to honored emeritus. His pragmatic blend of understanding markets as situated within states has led him to advocate a hybrid paradigm known as social developmentalism (Bresser-Pereira, 2013). As Bresser explained, developmentalism is a form of social organization of capitalism wherein the state plays a moderate but strategic role in regulating markets and coordinating the economic system. It first appeared historically under the name of mercantilism, which was also the era that gave birth to capitalism; it appeared for the second time in the thirty "golden years" of capitalism (1946–73). It is associated with structuralist development economics and with Keynesian macroeconomics. As Bresser's approach suggests, Brazilians seem to have an ability to function under a high degree of ambiguity. Unlike more rigid neo-liberal strategies employed in Chile, or the more "purist" socialist revolution in Venezuela, Brazilian programs to promote growth borrow from a flexible toolbox of economic ideas that responds pragmatically to changing internal and external conditions.

As the multifaceted nature of the Brazilian economy intersects with domestic interest groups and international opportunities, it is not surprising to observe frequent shifts in policy orientation. For example, the construction firm Odebrecht is a major player in Africa and Latin America. The formerly state-owned but now privately managed Embraer has soared to the third spot among aircraft manufacturers. Like these more modern Brazilian multilatinas, the orientation of the Brazilian economy historically shifted in response to tensions at home and opportunities abroad. Favorable conditions in the external market inflated the prospects of the commodity lottery in the country's early period. Gold drew prospectors to colonial cities such as Ouro Preto; the coffee economy was integrally woven with both Brazil's insertion into the global economy, as well as its darker association with the transatlantic slave trade (Skidmore, 2010).

In response to the contraction of global markets post-World War One and the Great Depression, a policy of import-substitution industrialization (ISI) took hold. Brazil turned inward during this period to develop its industrial and technological backbone. ISI employed a toolbox of protectionist trade policies with active state engagement in the productive sector. High tariff walls were set to protect infant domestic industries. Somewhat paradoxically, these protective measures also encouraged foreign companies to establish subsidiaries to access the large internal market. During this period multinationals such as General Motors and Ford invested in large production bases in Brazil. As described in the work of Tom Trebat, state owned enterprises were established in the bedrock industries to promote investment in complementary infrastructure such as electricity or telecommunications (Trebat, 1983). Private capital was partnered with state financing through the national development bank BNDES. The expanding role for the state placed economists as protagonists in policy circles. As agencies were created in the service of industrialization, they served as on the job training for a cadre of engineers, lawyers, and other technocrats put in the service of economic policy-making (Loureiro, 2009, 100–41).

The foundations of ISI in Brazil were partly orchestrated conceptually and in practice by Celso Furtado (1920–2004). A PhD in economics from the Sorbonne, in his seminal book *The Economic Formation of Brazil* of 1959 (translated into English as *The Economic Growth of Brazil* in 1963), Furtado outlined the basic elements of structuralist economic thought for the region. Consistent with the work of Argentine Raúl Prebisch and A.O. Hirschman, Furtado advocated

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the application of state resources to unleash domestic industrialization. Planning was seen as critical in order to overcome ongoing underdevelopment and to promote structural transformation (Furtado, 2011). The automobile cluster in the greater Sao Paulo area was, among others, a targeted investment to break the bottlenecks on the road towards broader industrialization. The aircraft producer Embraer was founded during this time, adjacent to the Air Force's ITA or Aerospace Technical Institute. Lead by the indefatigable retired Coronel Ozires Silva, its launch as a state firm assembling Piper aircraft in Brazil quickly outpaced the US partner to develop a family of aircraft particularly well-suited for the tropical environment.

Furtado rejected the dominant monetarist model that privileged the market as an engine of growth. Rather than a staged progression of exiting feudal agriculture and entering labor-intensive capitalist development, he identified that states could harness technology to leapfrog to strategies driven by heavy industry. In counterpoint to existing approaches, he explained economic underdevelopment as the full utilization of available capital without the complete absorption of the available workforce. The heterodox twist – this time on a Marxian rejection of center country control – was partnering with multinational capital for its control of technology in the service of autonomous development in the periphery. With a cost/price structure determined exogenously by powerful center countries, industrial development exacted a delicate management of expensive imported technology originally designed for European or US markets. Beyond technology, Furtado cautioned that the industrial center dominated demand patterns were often inconsistent with the needs of developing countries. Underdevelopment in countries like Brazil was thus not simply a temporary stage on the road to oncoming developed status, but an economic trap from which it was difficult to exit.

However, in keeping with his Brazilian origins, Furtado's approach to understanding the nature of underdevelopment was often more moderate and pragmatic than writing of other structuralist/dependency theorists from Latin America; it therefore found great policy acceptance. Furtado also wrote more wide-ranging works in economic theory such as *The Myth of Economic Development* (1974), which argued that it was a myth to think that economic development, and all its individual benefits, would some day reach everyone in the world through the magic of the Western capitalistic model of development. As an early harbinger of the modern environmental movement, he warned that natural resource or space limitations would not allow all people in the world to reach the highest standard of living. Foreshadowing the miles-long pileups in cities like Sao Paulo, he suggested that if everyone on the planet owned a car, then gridlock would ensue in many cities.

But Furtado's work on development was not unanimously accepted, even within Brazil, and Brazilian government policies were by no means straightforward applications of his ideas. Thus, in addition to the mix of state and multinational capital, Brazil employed a range of macro-tools to meet its industrialization objectives. Under the guidance of Roberto de Oliveira Campos (1917–2001) as Minister of Planning in the staunch pro-market anti-communist military government of Castello Branco, institutions such as the central bank, the workers' pension fund and the national housing bank were formed to aid market maturation (Espinoza, 2002). Although developmentalists gained sway with the expansion of state enterprises, monetarist economists, largely centered in the conservative FGV (Getulio Vargas Foundation) mounted an orthodox counter-attack advocating caution in monetary policy (Loureiro, 2009, 111–13). With scarce foreign exchange, the central bank had kept the Brazilian currency persistently over-valued to allow for the import of critical intermediate components to industrialize. With relatively abundant global liquidity, the pragmatic combination of structuralist state intervention with conservative macro-strategies gave rise to the so-called Brazilian miracle, managed in part by Antônio Delfim Netto (b. 1928), an economist who was Minister of Finance between 1969–74.

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The end of ISI and inflation

Brazil's expansion was debt-led, with foreign liabilities largely issued in dollar-denominated assets. ISI created pressures on the balance of payments, as the irony of import substitution was an initial surge of imports of intermediate capital to fabricate the finished product. At the time Brazil was also dependent on oil imports, so the quadrupling of oil prices in the 1970s weighed heavily on its external balance. Given the large internal market, industries responded to the incentives under ISI and the economy grew at robust rates nearing 8 percent until 1980.

Engineer and self-taught economist Mário Henrique Simonsen (1935–97) helped preside over the robust growth engineered by successive military governments by marrying market commitments with statist intervention (Schroy, 2013). Two of Simonsen's most important contributions to economics were a cash-in-advance model of the demand for money, and the novel concept of inertial inflation. Both were at least partly linked to the experience of the Brazilian economy. Inertial inflation referred to the "feedback element" of the inflationary process, as opposed to other more conventional autonomous components such as supply shocks or excess demand. Inertial inflation could be generated by adaptive expectations, indexation processes, or as developed by Simonsen, a reduction in the inflation adjustment interval as price changes gathered pace.

Simonsen broke inflation down into three components: autonomous (picking up exogenous shocks), demand (including government policy), and a feedback variable where past inflation fueled current rates (Cabello, 2013). Simonsen cast Brazilian inflation dynamics in a structuralist light. Rather than simple rational expectations approaches to inflation, he observed that various parties – government, labor and industry – began acting in an uncoordinated fashion to raise interest rates, wages, and prices in anticipation of inflation. Therefore an increase in the interest rate could have unintended effects that debilitated traditional monetary policy. In a normal case an interest rate rise should signal a tightening of the money supply and a subsequent reduction of inflation. But the observed interest rate was seen by Simonsen as having two parts: real plus expected inflation. In this case an increase in interest rates was not a mark of monetary tightening but its opposite, an inflationary momentum. With inertial inflation, agents instead interpreted this as a signal that the central bank was trying to protect returns.

Simonsen also applied game theory models to the wage/income indexation processes at work in inertial inflation. He appreciated the cash-in-advance microeconomic model which posited that money was demanded because it was the only means of purchasing some goods. The paradox in high inflation economies like Brazil was that holding cash was a guaranteed means of losing wealth. The wealthy therefore kept their money in interest bearing "overnight" checking accounts, whereas the poor lost purchasing power due to lack of access to banks.

The high Brazilian comfort-level with theoretical contradictions, such as Simonsen's "monetarist-structuralist" approach to inflation, allowed some conservative economists to ally with nationalists in the military government, to expand the role of the state in defending free market ideology. Unfortunately, the tensions within the mixed model turned out to be too great when hit with external shocks in the 1970s and 1980s. To counter the predictable problems with the balance of payments from an import bias, the government only auctioned the strong cruzeiro currency to the industries deemed strategically important. Not surprisingly, this led to problems with dual exchange rates and prompted hard currency shortages to support the overvalued rate.

In the early 1980s, conditions closed off opportunities for further industrialization using ISI tools. In response to rising inflation in the United States, Federal Reserve chair Paul Volcker

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pursued a contractionary policy that reined in the global oversupply of dollars. From negative real interest rates in 1978, the rapid monetary shock of an additional 10 percent on debt due was crippling. When the Mexican call of "can't pay, won't pay" reverberated in the global financial system in 1982, the external spigots financing intensive industrialization rapidly closed off. The Brazilian Central Bank attempted to compensate for the drought in external financing by making capital more available at home, but this fueled inflationary flames. Among others, Maria da Conceição Tavares (b. 1930), a naturalized citizen from Portugal, was a vociferous critic of the adoption of neo-liberal International Monetary Fund (IMF) policies that forced tough medicine of adjustment on Brazil.

Inflation was the dominant concern in the lost decade of the 1980s and the first part of the 1990s. At times, Brazil attempted to combat rapidly rising prices by orthodox means, cutting the money supply and raising the interest rate to reduce circulating currency; but these attempts failed as inertial inflation had become ingrained in Brazilian institutions. Key interests were protected by an intricate web of indexing. As Albert Fishlow describes, over a hundred laws circumscribed the process of managing inflation in Brazil (Fishlow, 1974). Wages, rents, bus fares, and electricity were adjusted monthly to inflation. Checking accounts were protected by interest paid to pace inflation; no one with access to banks held cash. Private retailers joined the indexation game by printing daily *tabelas* corresponding to changing prices. Clothing was not tagged by price but rather coded to match the latest rise in the price table. Oligopolistic conglomerates passed on price increases to consumers. Taxes, too, were indexed, albeit at a slower rate. But the poor suffered the most, as informal sector wages were not indexed and those living in crowded *favelas* rarely were banked. Each pay period was marked by fraught lines in stores as people obtained all the staple goods they could buy before prices increased.

The newly elected democratic government tried to slow this inertial inflation by lagging the pace of indexing behind actual inflation. People came to distrust the government-published inflation indices, clamoring for higher wages to cover rising consumer costs – a spiral passed on at the checkout counter. Investors also began to read interest rate changes as harbingers of future inflation. Rather than observe rising interest rates as evidence of credible contractionary monetary policy, investors interpreted these as signals that the government expected higher future inflation. Those with the capability to invest abroad began to diversify portfolios, choosing to purchase safe assets overseas.

There were many economic plans to tackle the unintended consequences of living with inflation. After failed trips to the IMF in the early 1980s and paralleling the transition from military rule to civilian democracy, José Sarney implemented the cruzado plan in 1986 to shock Brazilians out of their addiction to inflation. Wages and prices were frozen; he deputized Brazilians as *fiscais*, empowering them to arrest store managers who violated the price freeze. Sarney reformed the weak cruzeiro by slashing three zeros off and renaming it the cruzado. These heterodox measures were accompanied by a contractionary monetary policy (Roett, 2011, 88).

At first, Sarney's plan worked; inflation stopped, albeit temporarily. People were encouraged by the new buying power of the cruzado – and made postponed purchases from hyperinflationary times. As domestic consumption spilled into imports, the current account deficit bulged and foreign reserves weakened. Investors reasoned if the government had devalued before, then it could do it again, and so moved money offshore. Expecting the collapse of the cruzado, those with commodities that wouldn't perish hoarded them. As cattle were not slaughtered, meat shortages erupted. These measures were further strained by the new demands of the emerging democratic state. In 1987 the Bresser plan introduced new adjustments into the cruzado strategy, but markets and consumers were not convinced and hyperinflation resumed.

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New hope for political and economic change came with the 1990 election of Fernando Collor de Mello. Committed to clean government and slaying the tiger of inflation with a single bullet, Collor enacted a mega-liquidity shock to wrest inflation from the Brazilian economy by freezing all bank accounts in excess of $1,000. Consistent with orthodox monetary theory, a sharp and credible cut in the quantity of money in circulation rapidly squeezed inflation out of Brazil. The architect of this radical Collor plan was University of Sao Paulo Professor Zelia Cardoso de Mello (b. 1953) (Zelia Mello: Executive Profile and Biography, 2013). Enacted on Collor's first day in office, the plan also engaged aggressive liberalization and privatization in the economy. The problem was in restarting growth. Investment craves capital; Brazilians learned to work around the financial restrictions and money flowed back into the market. Credibility destroyed, inflation crashed back. With a government weakened by corruption scandals, tarnished Collor left the presidency two years after assuming office.

Once again a Vice President found himself in charge. Itamar Franco, a seasoned politician from the powerful state of Minas Gerais, assumed office amidst yet another crisis. Breaking ranks with the market-driven policies of Collor, he saw a more nuanced role for the state in development. He called upon Fernando Henrique Cardoso (or FHC, b. 1931), his finance minister and successor as president, to introduce a quintessentially Brazilian package – a bit orthodox, a dash of heterodox, targeted toward the uniquely Brazilian environment. FHC had begun as a typical dependency theorist, but had become increasingly critical of the simplistic leftist interpretation of the idea of dependency that applied rigid Marxist "ruling class" terms. Moving to a more Weberian understanding of class, he distinguished between the different contexts of individual underdeveloped countries, and allowed for more positive aspects to the capitalist "modernization" of the periphery, rather than simple dependency on the center.

In some daring policy engineering, a group composed of FHC, together with the Berkeley economist and former Minister of Finance Pedro Sampaio Malan (b. 1943) and Harvard-trained Gustavo Franco (b. 1956), invented a new unit of account, the urv or unit of real value. This was envisaged as a super index – the big index to out-index all of the indexation that was contributing to inertial inflation. While providing a key function of a currency – a stable unit of value – it wasn't a currency, simply a denominator. After an adjustment to cover declining purchasing power, all other indexes were disbanded. As people began to trust in this unit of measure, a new currency called the real was launched. After over a decade of straining under inflationary pressures, Brazilians swallowed hard budget cuts and the successful new currency propelled Cardoso into the presidency. A great big adjustment had managed to gain control of *Brazilão*.

From stabilization to inclusion

Gaining control of inflation in Brazil required steadfast commitment. As president, FHC struggled with reducing fiscal outlays to meet strict monetary objectives, but confidence in the real had unintended effects as consumers discovered stable buying power. Increasing liberalization allowed imports to outrun exports. When contagion from the 1997/8 Asian financial crisis reached the real, the fixed currency anchor was ended. Monetary stability was maintained through a measurable inflation target managed by the Central Bank. Although Brazil ran primary fiscal surpluses, FHC was unable to engineer deep reforms in pensions and formal sector entitlements.

Market confidence was cultivated by Princeton-trained Arminio Fraga (b. 1957), who served as Governor of the Central Bank of Brazil from 1999 to 2002; his deft hand guided Brazil toward

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macroeconomic stability (Committee Member Profile: Arminio Fraga, 2013). Fraga argued that factors external to a developing country's domestic fundamentals frequently drove the flow of funds to and from the country. When monetary policy was loose in the main financial centers of the world, developing countries tended to have easy access to capital. Conversely, developing countries faced problems following a Federal Reserve tightening, or negative global shock. In periods of loose monetary policy when capital was too easily available this caused complacency in the developing country's financial sector, associated with loan growth that outstripped real GDP growth several times over, which in turn produced financial fragility in the developing country. The danger signal for investors was the excessive accumulation of short-term debt, which eventually led to crisis when external monetary policy tightened. Fraga's suggestion that capital in an underdeveloped country could sometimes come "too easily" illustrates how far the hybrid model in Cardoso's government was from traditional dependency theorists.

Brazil's hallmark inequality became more apparent as Brazil began to benefit from opening to global markets. Globalization favored the skilled or those tied to commodities in demand from China; those in the informal sector fell behind. After three unsuccessful runs, the election of Luiz Inácio Lula da Silva as president was a tacit acceptance by Brazilian elites of the need to promote social inclusion. Markets were jittery but accepted Lula's domestic populism. Ever the pragmatist, Lula had appointed largely conservative economists to build confidence (Loureiro, 2009, 132). While an experienced team managed monetary and exchange rate policies, he crafted a widening policy space for social supports. His "family purse" became a regional prototype for conditional cash transfer (CCT) approaches. Families received payments to Bolsa credit cards if their children met 85 percent of school attendance norms and completed health checkups. Combined with increases in the minimum wage and healthy GDP growth, Brazilian poverty was cut in half and inequality declined for the first time anyone could remember.

Lula deployed his political skills to build global coalitions among emerging market partners, fortifying not only the South American common market Mercosur but also reveling in the BRICS denomination. Strong macroeconomic fundamentals maximized the opportunities created by attending to the Chinese market for minerals and food. Mining giant Vale brandished its global reach while highly productive agricultural producers created truck queues bringing soya to the Asian market. Large firms such as Gerdau in steel, Odebrecht in construction, or Embraer in aerospace flourished, but SMEs without easy access to preferential capital offered by BNDES, the national development bank, suffocated under high logistics costs and oppressive taxes.

Weaknesses in microeconomic foundations plagued Dilma Rousseff, Lula's successor to the Worker's Party governing mantle. Although Brazil had escaped severe damage from the global financial crisis due to self-insuring reserves of capital, restarting growth was problematic. Asian demand drivers weakened, cooling off commodities. Brazil had not capitalized on the window of strong global growth to improve competitiveness, and the environment to start/expand enterprises remained one of the worst in the world. When the United States infused the world with dollars through quantitative easing to combat its domestic recession after 2008, uncompetitive Brazilian firms were squeezed by a strengthening real.

When other countries joined in this competitive devaluation process, this was dubbed the "international currency wars" by Finance Minister Guido Mantega (b. 1949) in 2010, a USP Sao Paulo-trained economist with a PhD in sociology (Profile of Guido Mantega, 2010). These "currency wars," a phrase which quickly became popular, were the result of divergent policy goals. As the USA printed cash to stave off domestic depression, global capital markets channeled some of this liquidity to Brazil. With an ample supply of dollars relative to reals, the Brazilian currency rapidly strengthened. In counterpoint to the received orthodoxy at the time, Mantega

used currency controls to fight appreciation and maintain competitiveness in the Brazilian economy. This policy helped international financial institutions to an appreciation of the effectiveness of currency controls in the global economy (IMF, 21 April 2012).

But the currency intervention used to moderate competitiveness effects on the real exchange rate wasn't enough to overcome the lack of structural competitiveness. The two combined to deliver a *golpão* – a huge punch in the gut – to Brazilian industrial growth. Dilma made gestures toward investment in high technology and innovation but the neglect of infrastructure and education strangled success. Trained by another female economist, Maria da Conceição de Almeida Tavares, Dilma's heart is in the structuralist model of state intervention. The straight-jacket of globalization, however, requires that state capitalism be moderated by capital-friendly policies. Brazil's star rating in capital markets became tarnished.

Just as Brazil had begun to anticipate the global stage of the World Cup in 2014 and the Olympics in 2016, the microeconomic pressure cooker blew open. Linked by social networks, Brazilians took to the streets to protest against massive investments in athletic complexes while infrastructure decayed. Middle class aspirations veered toward improving education and health services – not a sports party that only elites could afford. Dilma recovered her former self as student protestor imprisoned by the military, and managed new initiatives for the social sector. But the complexities of *Brazilão* make such band-aid solutions fragile.

Brazil faces tough tradeoffs. Rent-seeking behavior on the part of elites must diminish to create fiscal space for inclusive growth. The Brazilian state cannot continue to provide early pensions for formal sector workers while its public school students cram into two or three poorly-staffed sessions a day. People and businesses cannot continue to suffer the tax on productivity exacted by hours each day wasted in traffic or attending to bureaucratic regulations. Without a burst in productivity growth rates, Brazil will remain in the middle income trap. But engineering these changes in *Brazilão* is a formidable challenge. No intellectual leader – neither politician nor economist – appears poised to guide Brazil in this tenuous transition toward sustainable, inclusive growth.

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