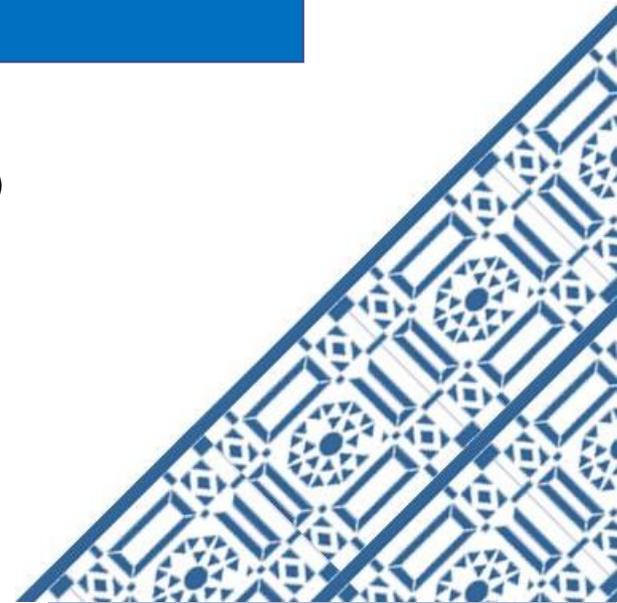


# From the “Brief Golden Age” to the decline of the Brazilian economy since 2015: Distributive conflict and stagnation policy

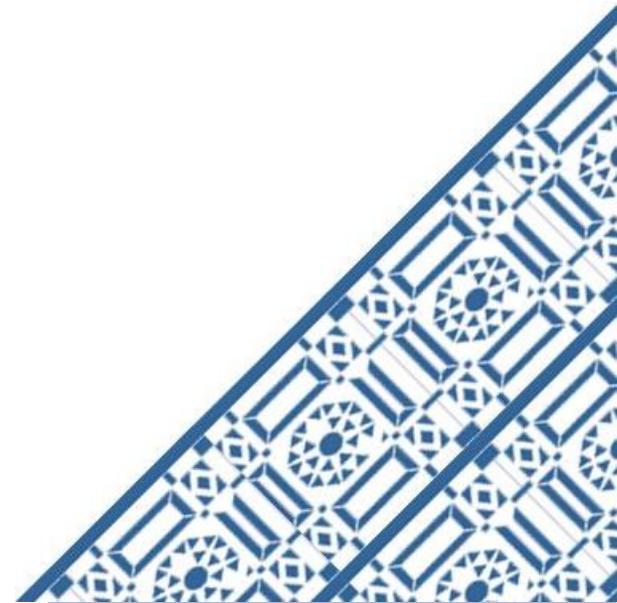
Ricardo Summa

(Federal University of Rio de Janeiro and visiting researcher at IPE-Berlin 2021-2022)

July 14, 2022



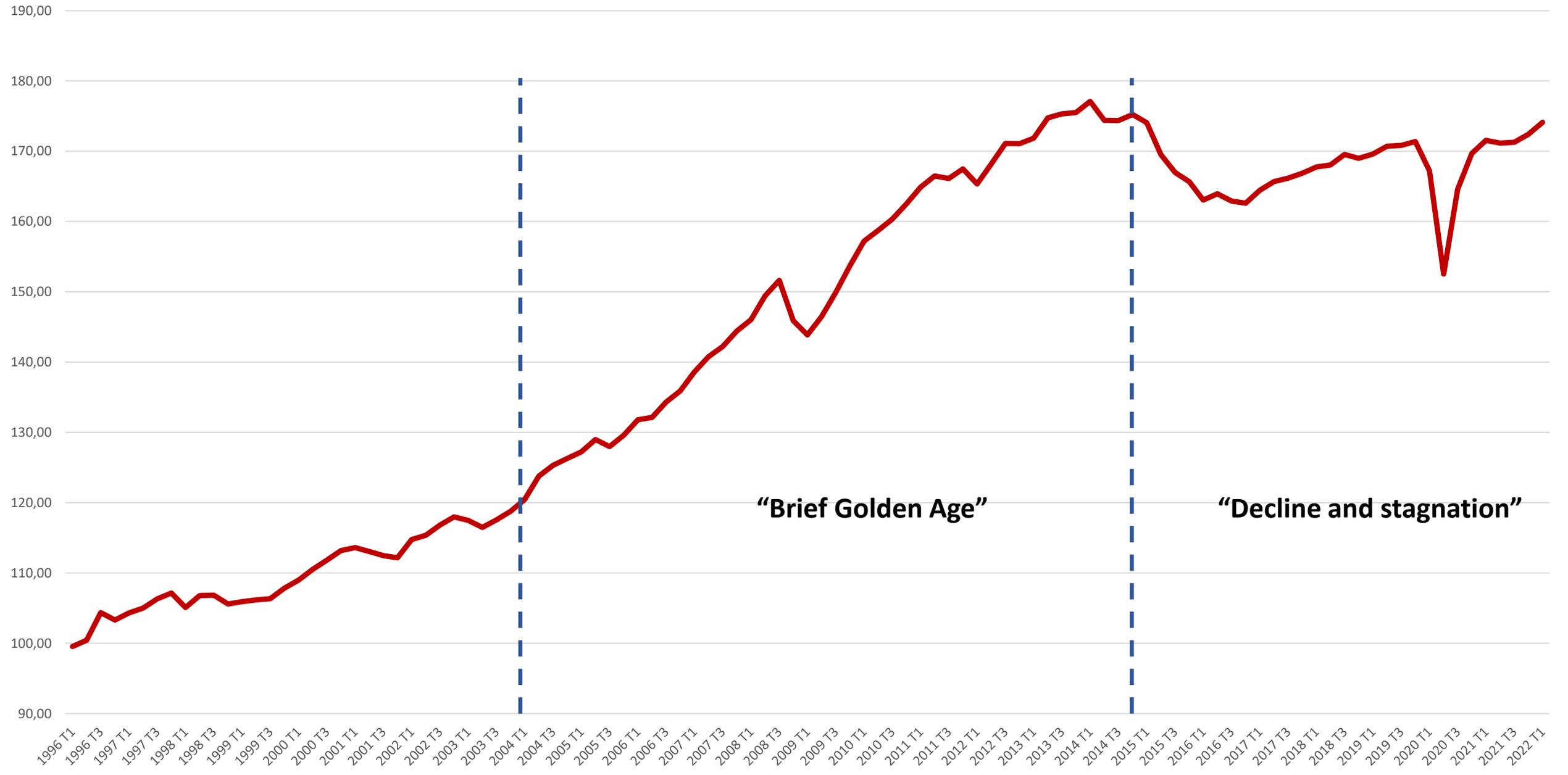
1. Introduction
2. The Brief Golden Age
3. Undesired Revolution and Distributive Conflict
4. Decline from 2015
5. Stagnation Policies
6. Final Remarks



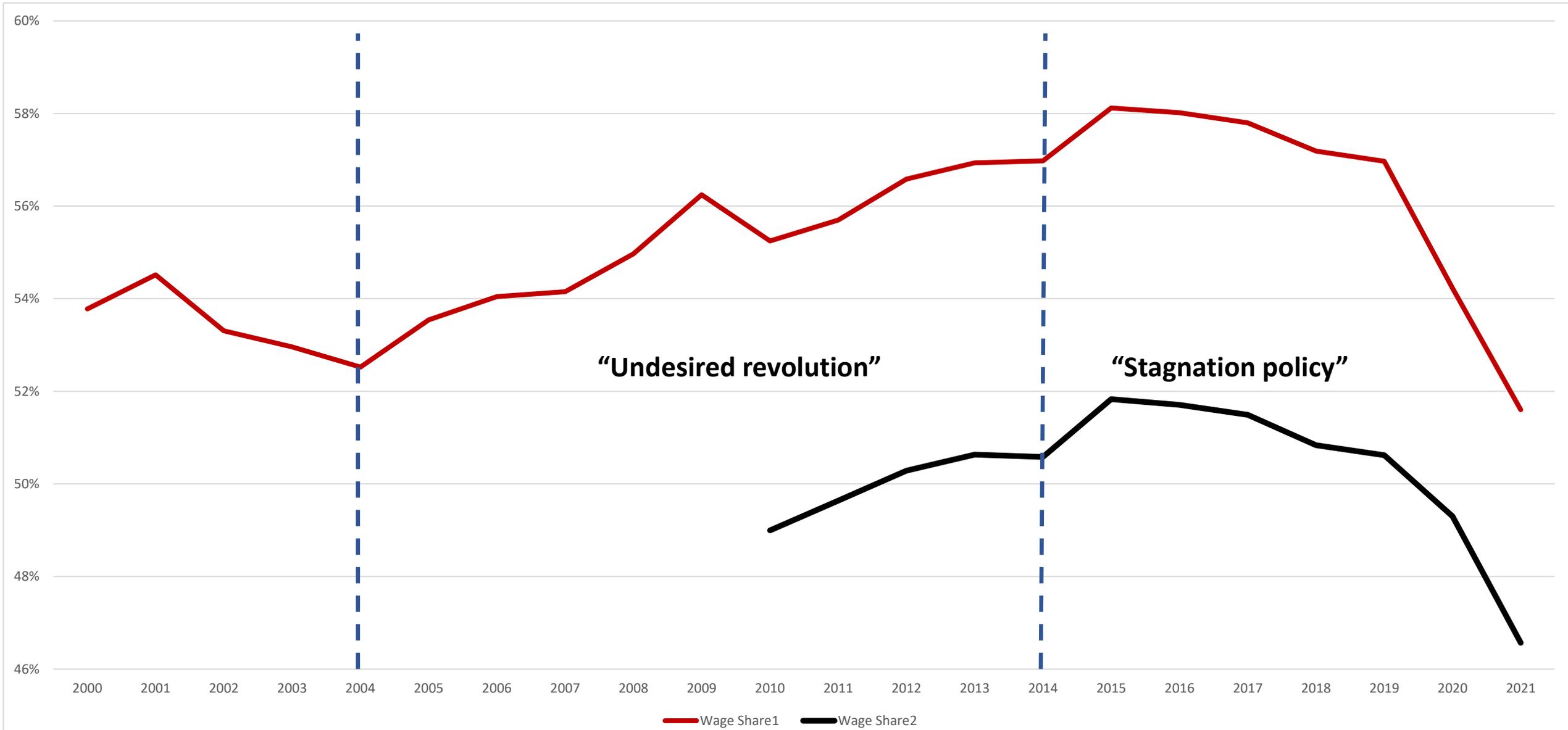
- Brazilian economy:
  - After two ‘lost decades’ (1980-1990) + external crises (1999-2002)
  - Period of expansion of GDP, income distribution and social advances (200-2014);
    - “Brief Golden Age” and “Undesired Revolution” in the labor market
  - Change towards stagnation, worsening of distribution and reversal in social indicators since 2015;
    - Austerity and “Stagnation Policy”



# GDP



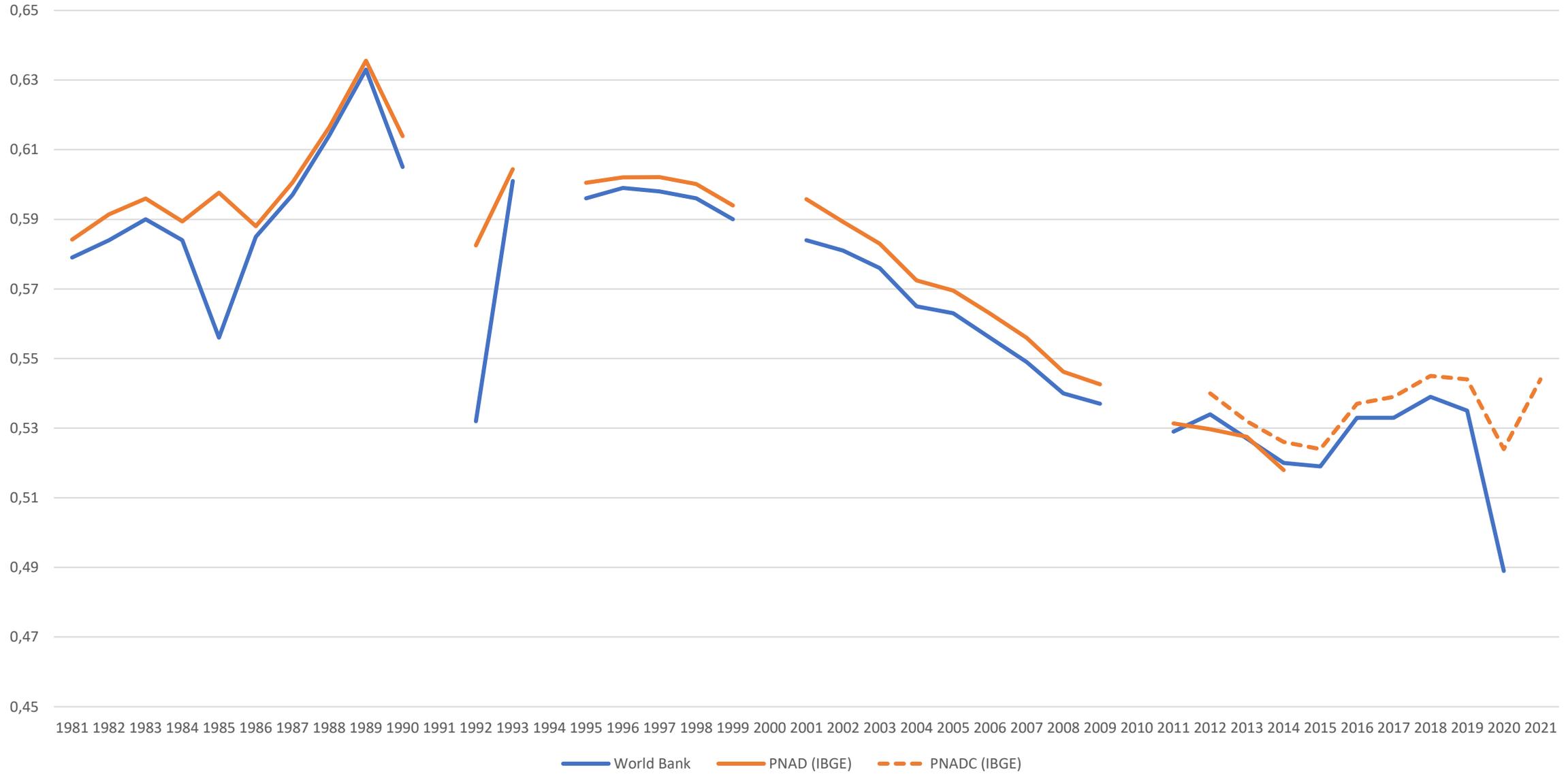
# Wage Share



\* Wage share 1 calculated by Miebach & Marquetti (2021); Wage share 2 calculated by Hugo Saramago

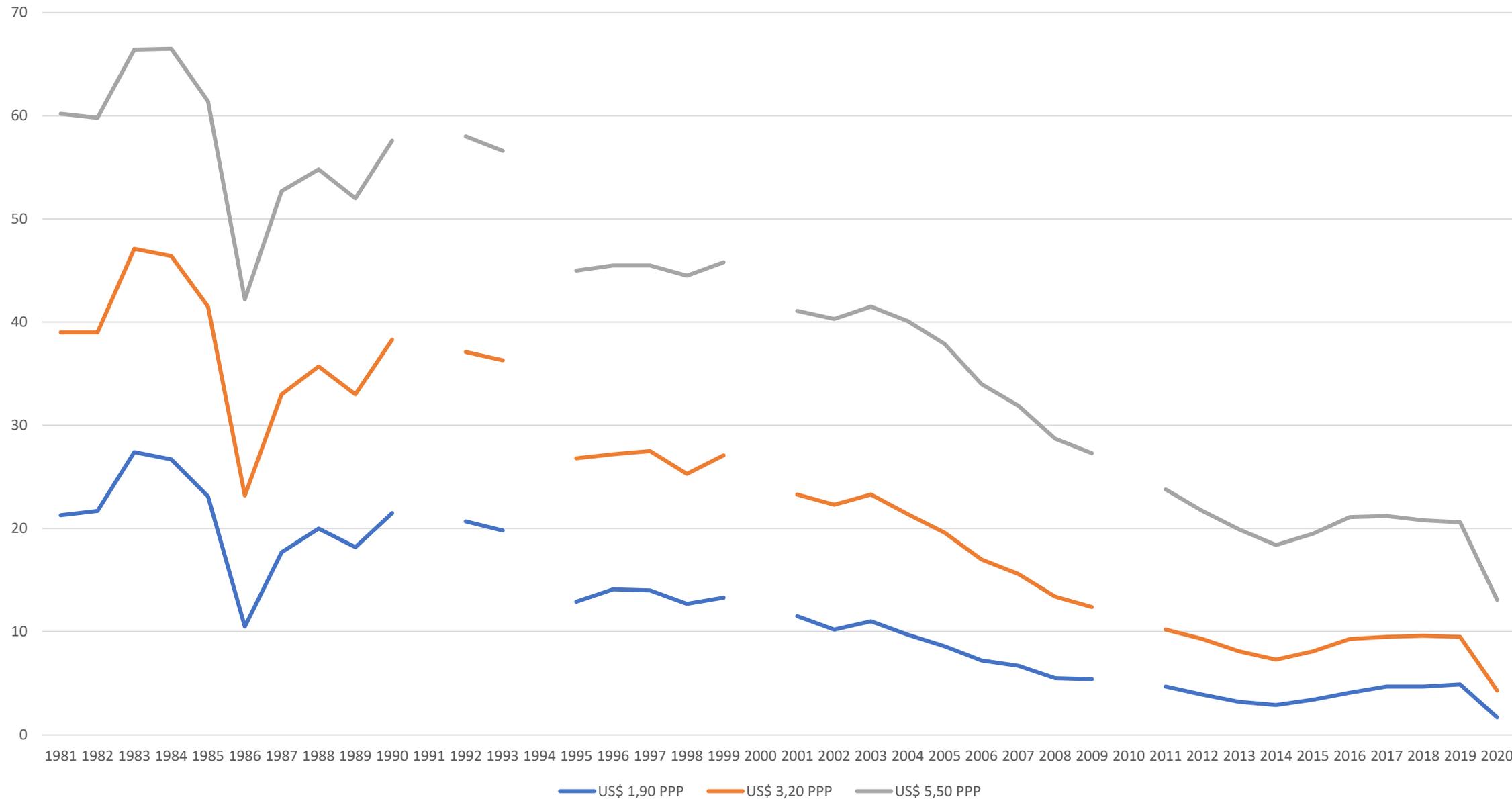


# Personal Inequality (gini)

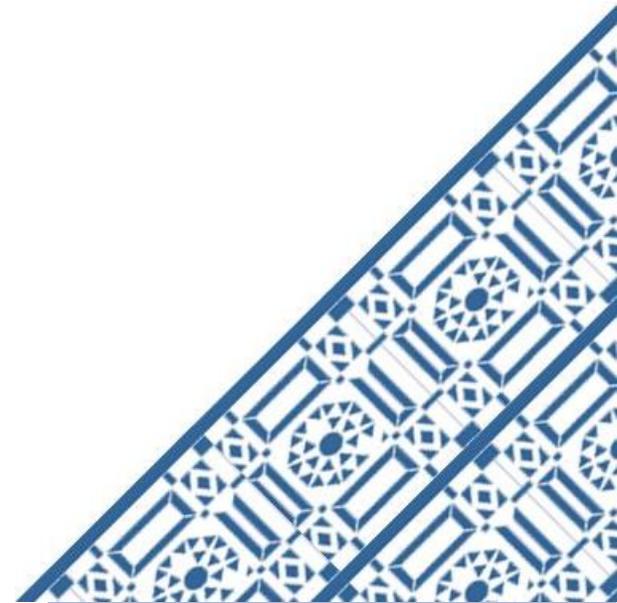


— World Bank — PNAD (IBGE) - - - PNADC (IBGE)

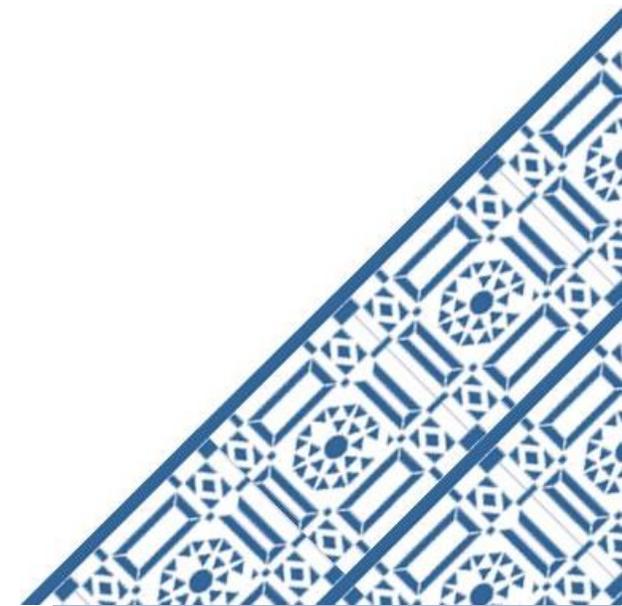
# Poverty Rate



- Aim of this presentation is to discuss our interpretation to:
  - Causes of this “Brief Golden Age”
  - Causes of the interruption of this process



- Improvement in external conditions since 2003:
  - Rise in Commodity Prices + Growth of developing economies
  - Increase in International Liquidity (low US interest rate + falling sovereign spreads in developing countries)
  - Better management of Balance of Payments (accumulation of international reserves, dirty floating exchange rate, etc)
- Important to relax the balance of payment constraints to growth

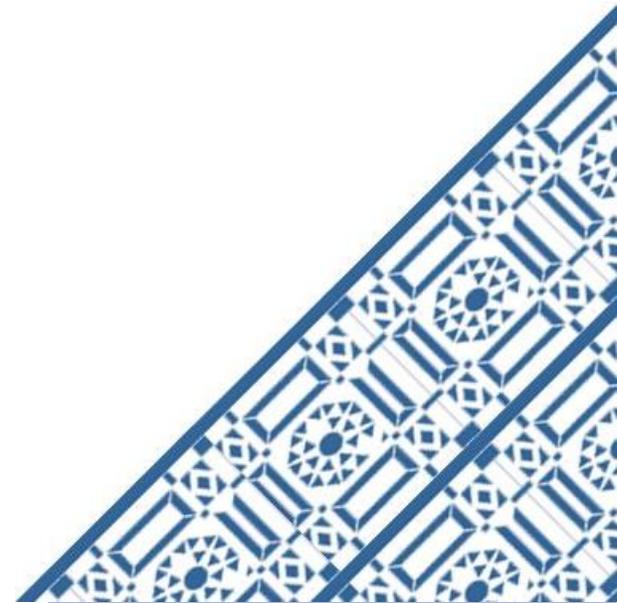


- Pragmatic macroeconomic policy of boosting aggregate demand (after some hesitation) in 2004-2010
  - Credit, real minimum wage policy, transfers, public investment (including state-owned enterprises)
    - ‘Autonomous demand’ expansion:
      - Government spending, household’s autonomous consumption, residential investment (and exports)
      - Continuous increase in wage share → multiplier
    - Increase in private business investment share: accelerator mechanism
- Faster average growth of GDP



Brazilian macroeconomic indicators 2004-2019 (real yearly % average rate of growth unless stated otherwise)			
Economic Activity			
	2004-2010	2011-2014	2015-2019
<b>GDP</b>	<b>4,5%</b>	<b>2,4%</b>	<b>-0,5%</b>
<b>Industrial output</b>	<b>3,5%</b>	<b>-0,9%</b>	<b>-1,3%</b>
<b>Formal Employment (mi, average)</b>	<b>1.458</b>	<b>829</b>	<b>-428</b>
<b>Unemployment rate*</b>	9,0%	5,4%	11,1%
Aggregate Demand			
	2004-2010	2011-2014	2015-2019
Households consumption	5,3%	3,6%	-0,1%
Public Adm. consumption	3,2%	1,7%	-0,3%
Investment	8,0%	2,3%	-4,2%
Machinery and Equipments	12,3%	1,0%	-3,7%
Construction	5,8%	3,1%	-6,4%
Exports	5,2%	1,4%	2,8%
Imports	13,4%	3,7%	-1,8%
Fiscal Policy Variables			
	2004-2010	2011-2014	2015-2019
Primary Surplus/GDP	3,2%	1,6%	-1,7%
Public Sector Revenues	6,8%	1,2%	0,4%
Public transfers to households	5,6%	4,9%	-3,1%
State Owner Enterprises (Federal)	14,7%	-1,3%	*
Public Adm. Investment*	13,9%	0,0%	*
Wages			
	2004-2010	2011-2014	2015-2019
Real Wage (formal employments)	2,5%	3,2%	0,6%

- Change in macroeconomic policy stance in 2011-2014
  - Reversion in public investment policy, but maintained the minimum wage policy + expansion of transfers
    - Slowdown in government spending, households' autonomous consumption, residential investment (and exports)
    - Stabilization and further reduction in private business investment share
    - Although continuous increase in wage share → multiplier
- Slowdown in economic growth in 2011-2014



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- Increase in real minimum wage
- Expansion of public transfers and social coverage
- Unions became relatively stronger
- Employment formalization (law enforcement + incentives like access to credit and tax rules)
- Lower unemployment rate
  - Growth and employment creation, shift in composition of demand to services (lower productivity)
  - Demographics + social policy → lower participation rate
- Increase in workers' degree of bargaining power and strengthened distributive conflict
  - Average growth of 3% in real wages (p. year, with low productivity growth)
  - Increase in the wage share



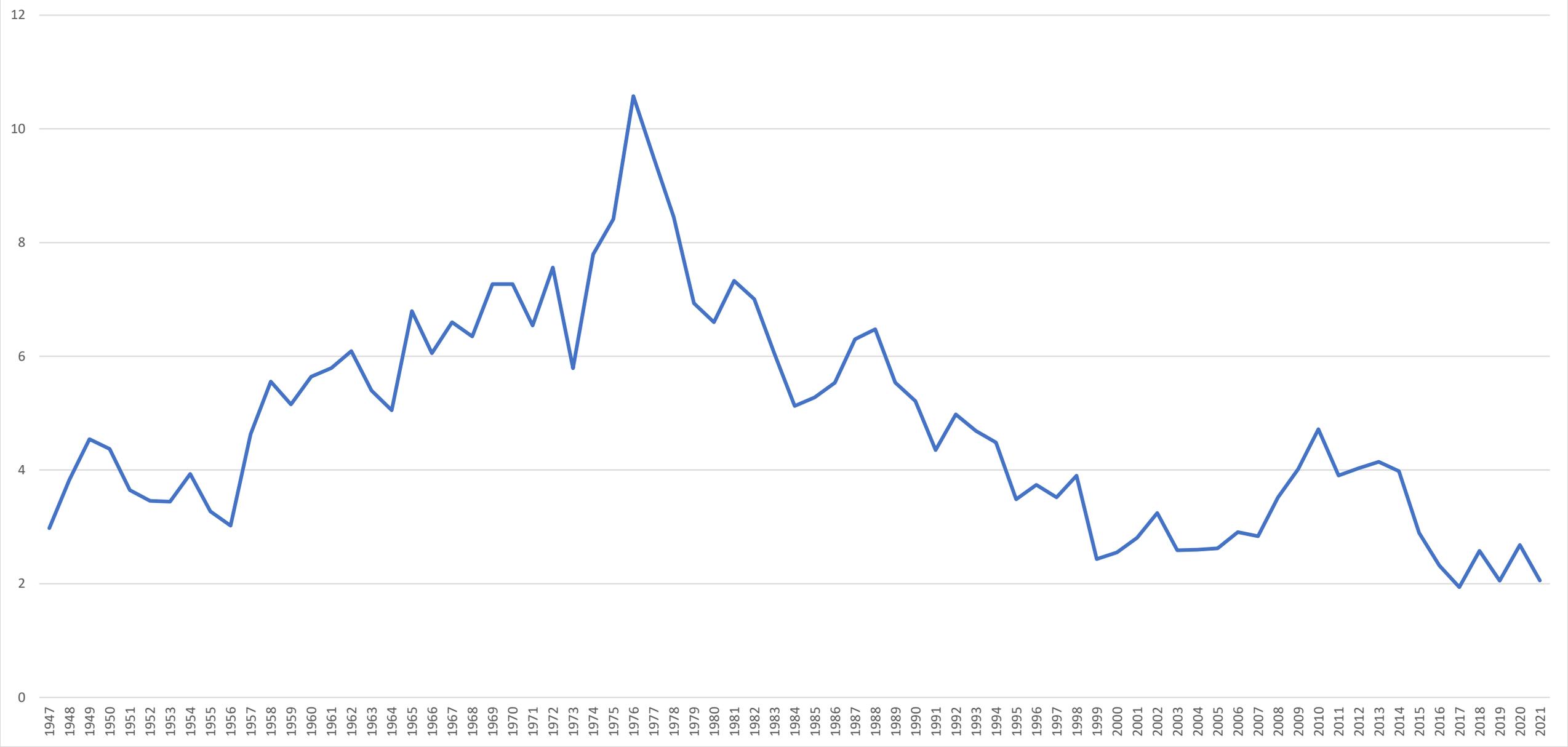
**Table 1. Labor Market, Institutional and Policy Variables, and Real Wage Growth.**

	2001–2005	2006–2014
<b>Labor market</b>		
Formal employment (average, millions)	1	1.2
Unemployment rate	11.3	7.1
Labor force (PEA)	3.0%	1.2%
Working age population (PIA)	1.9%	1.3%
Labor informality rate	53.9%	48.1%
<b>Institutional and policy variables</b>		
Real minimum wage	5.3%	5.2%
Number of benefited workers (million)—unemployment benefit and “abono salarial”	7.8	16.3
Public social transfers	6.3%	5.7%
<b>Workers’ bargaining power</b>		
Turnover rate	43.7%	50.3%
Strikes (number)	331	491
Strikes (thousand hours)	19	44
Percentage of workers with real gains	43.8%	86.0%
<b>Real wages</b>		
Manufacturing industry	–2.3%	3.3%
Construction industry	0.0%	3.8%
Commerce	–1.5%	2.9%
Services	–5.3%	2.3%
Agriculture	1.8%	5.1%
Total	–3.2%	3.1%
Workers average income	–2.4%	3.2%

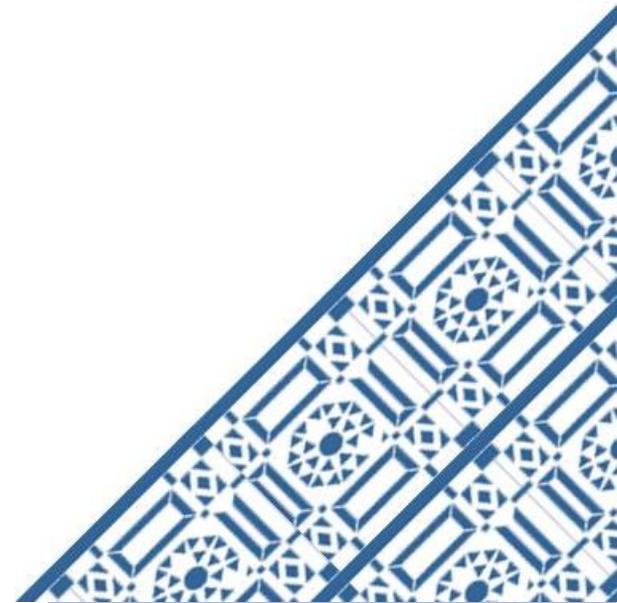
# The decline of the Brazilian economy since 2015

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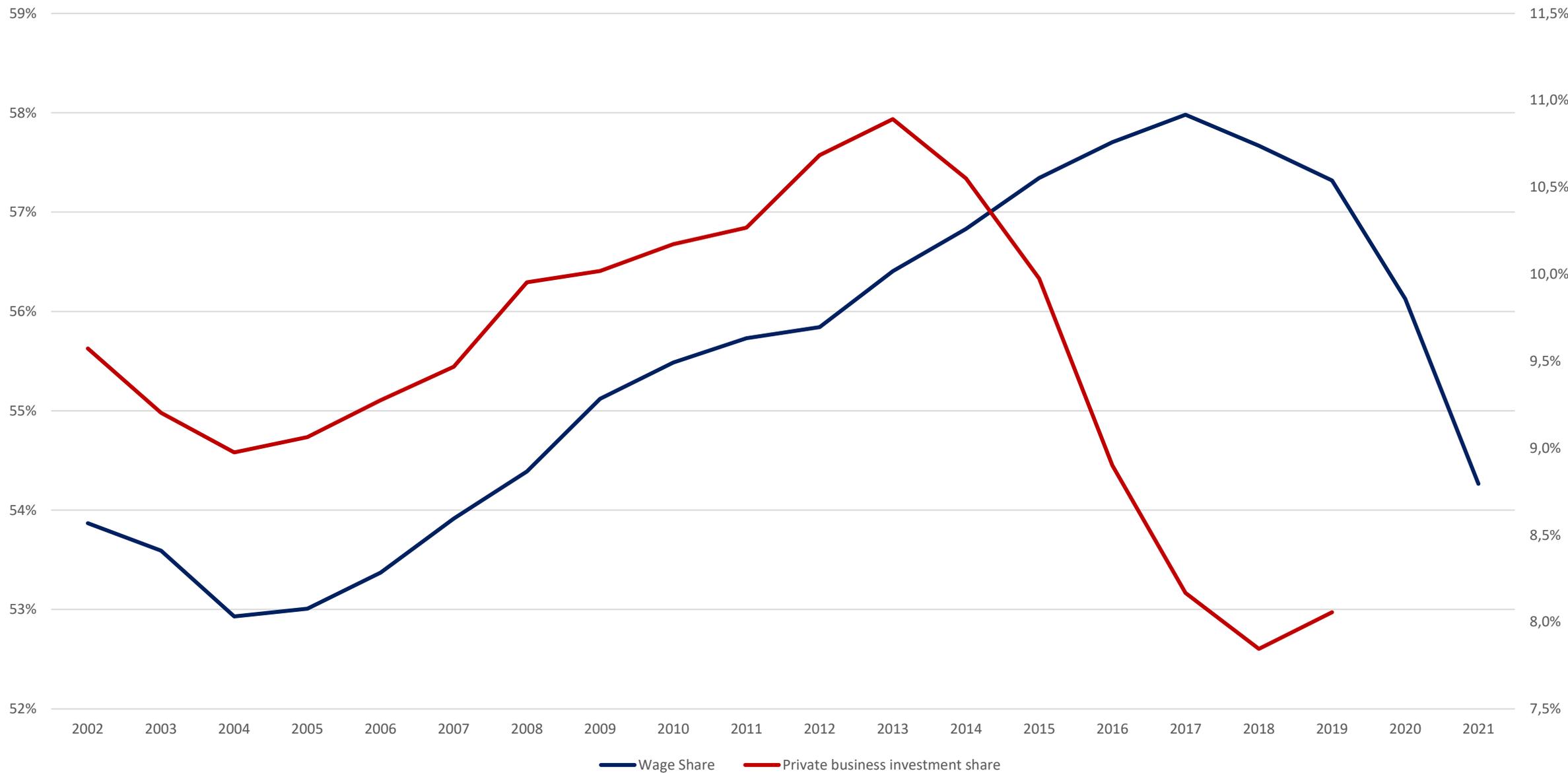
Public Investment/GDP



- Heterodox interpretations found in the literature:
  - Profit squeeze and direct effects on private business investment share
    - Marquetti et al, 2020[2016]; Martins and Rugitsky, 2021[2018]
  - ‘Profit-led’ investment.
    - Bresser-Pereira, 2015
  - “Investment strike” as a political reaction.
    - Singer, 2015



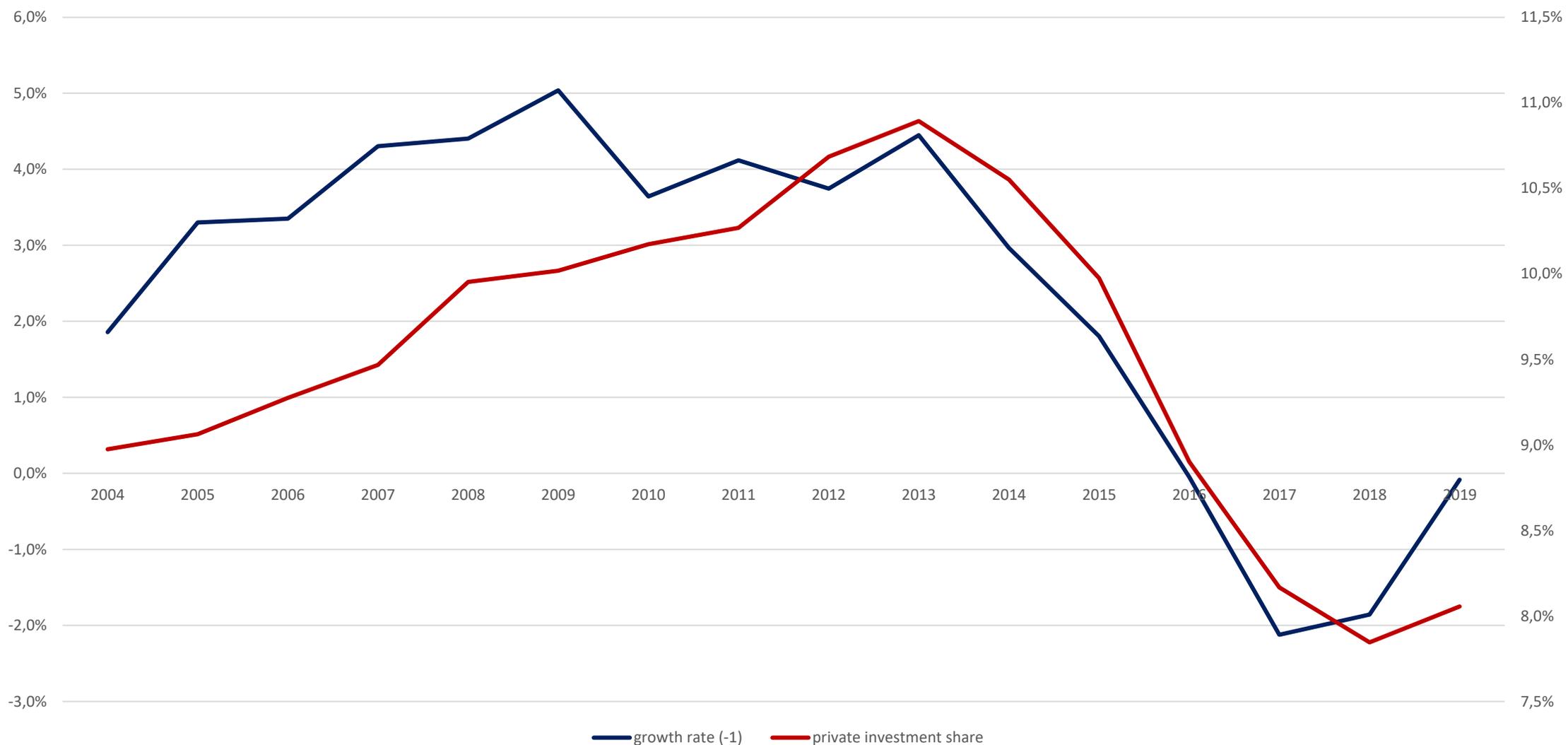
# The Causes of the Decline



**\*Both series are calculated as moving average of 3 years**



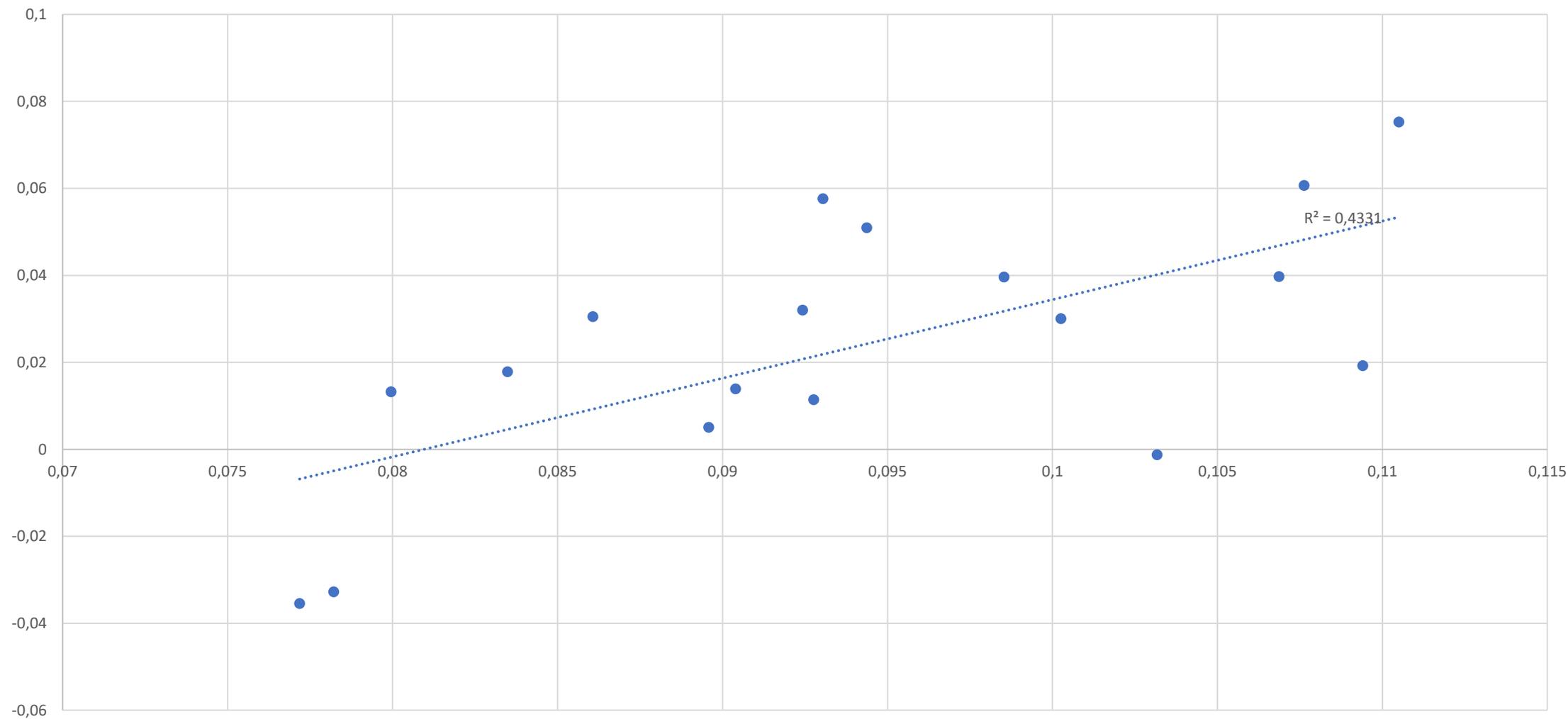
# The Causes of the Decline



**\*Both series are calculated as moving average of 3 years**

# The Causes of the Decline

Growth rate GDP (-1) x Private business investment share



$R^2 = 0,4331$

- Private business investment share:
  - No systematic relation with wage share
  - But systematic relation with growth
- Business investment explained by the principle of capital stock adjustment:
  - Empirical evidence for Brazil:
    - Santos et al., 2016; Avancini, Freitas and Braga, 2015; Miguez, 2016; Braga, 2020; Avritzer, Freitas and Braga, 2021.
- The fall of private business investment share was not a cause, but a consequence of the slowdown and then the crisis.

- Sudden change in macroeconomic policy stance from 2015
  - “contractionary general contraction” in 2015
    - strong fiscal adjustment
    - interest rate hike + public banks’ credit contraction
    - exchange rate depreciation + huge raise in public utility service’s fares
    - cancelation of state-owned enterprises’ investments due to ‘car wash’ corruption inquiry
- Official justification:
  - fiscal adjustment to control public debt to GDP ratio
  - avoid downgrade by credit agency ratings and external crisis
- But Brazil had no BoP problems, and the public debt was denominated in national currency.



- Economists from the opposition party (politically conservative PSDB) made it clear what was really at stake:
- “After a long period of rapid growth, unemployment rate reached 4.6%. **There are horrible pressures in the labor market.** Unions, as was expected, took advantage of the situation to impose wage increases and social gains, which increased the cost faced by firms and created a dramatic situation in the industry. **What she [Dilma Rousseff] must do – and the new policy is already doing is to make the labor market more flexible. In other words, to generate some unemployment.** This is already happening in the automotive sector. **Unions will become weaker and negotiate in more reasonable terms.**” (Mendonça de Barros, Jan 2015, former minister in Cardoso Government).
- **“We will see a reversion in the process of reduction in the labor supply ”.**  
(Joaquin Levy, July 2015, Finance Minister, former PSDB adviser and Chicago trained economist)
- “The higher is the fall in real wages, the rapid and painless will be the adjustment. (...) in May, June [2015], **I was glad because expectations were pointed to a fall in 5% of the real wage”.**  
(Samuel Pessoa, PSDB adviser, Oct 2015)

- Our interpretation:
- Sudden shift in economic policy towards “austerity” and “stagnation” policy:
  - To stop the process of real wage growth generating enough unemployment
  - To create a propitious climate for the beginning of reforms that reduce labor and social rights as a way of permanently reducing the degree of workers’ bargaining power.
- In this sense, the economic policy has been extremely successful:
  - Reverted the process of real wage growth and opened space for dismantling of the political and institutional framework that led to that “undesired revolution”:
    - Ceiling to government spending in 2016;
    - Labor law reform in 2017;
    - Pension reform in 2019;

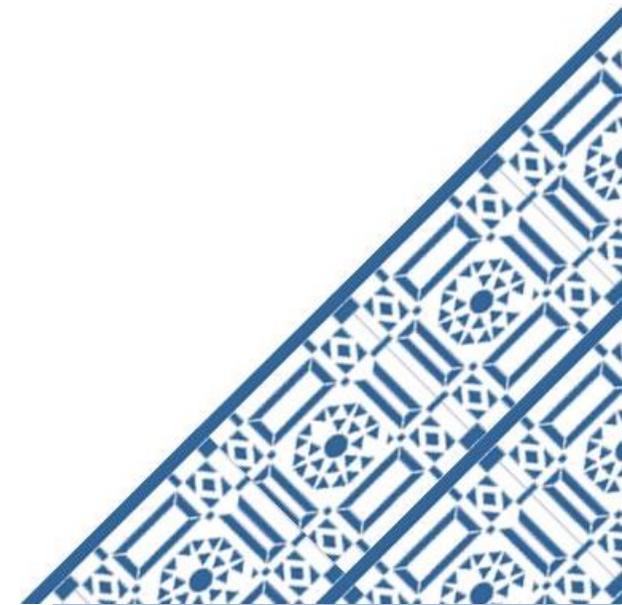
- Kalecki (1943) “political aspects of full employment”,
  - Strengthened workers’ bargaining power:
    - Reverted by opposition of the property-owning class
    - Persuading the government to change the direction of the economic policy stance.
- Steindl (1976, p. xvii):
  - The arguments against full employment have got the upper hand in the **councils of the power**, and thus we witness stagnation not as an incomprehensible fate, as in the 1930s, but **stagnation as policy**”
- Garegnani et al. (2008):
  - Distributive conflict, ‘wage explosion’ and political reaction by the capitalist class to change the direction of the economic policy.
- Capitalists do not act “as a class” to reduce investment if their profit margins and rates decrease
- But make political pressure on the government to stop, and if possible, to revert progressive economic policies which generate social and distributive results unpleasant for them.

- Process of socially inclusive economic growth (2004-2014):
  - The “Brief Golden Age”
- “Undesired Revolution”:
  - Strengthened workers’ bargaining power and tendency of real wages growing more than productivity.
- Interruption of this process from 2015 onwards occurred:
  - As an effect of the intensification of the distributive conflict
    - Indirectly, by the political pressure exerted by the capitalist class (and its allies) on the government to change the economic policy stance
    - Not caused by economic or political effects acting directly on private investment.
    - Not caused by external crisis (as common in Brazil and LA)

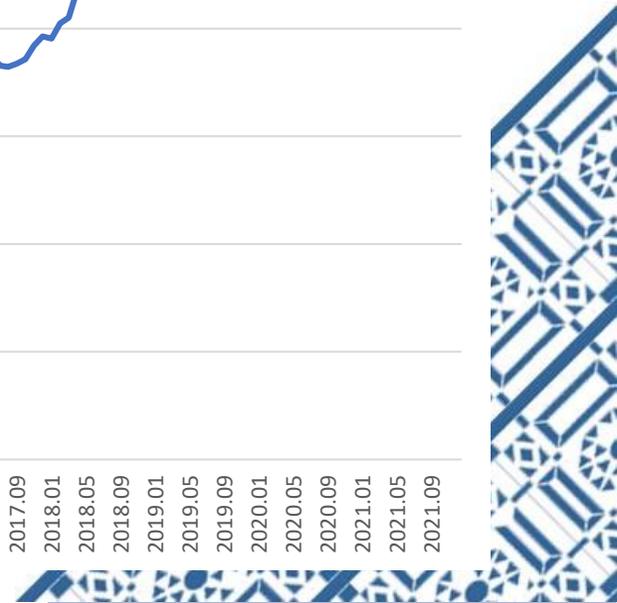
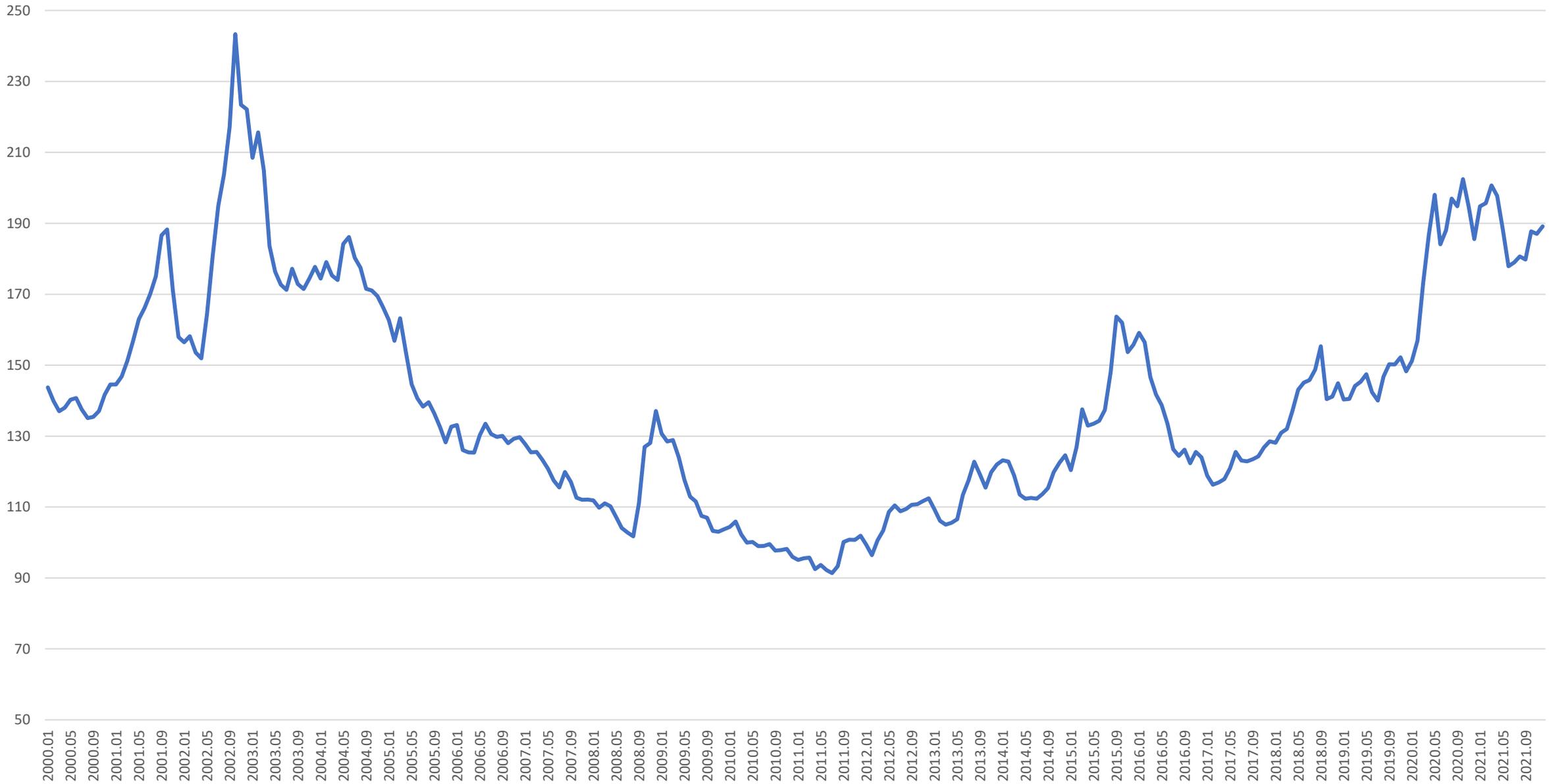
*Thanks!*

*Danke schön!*

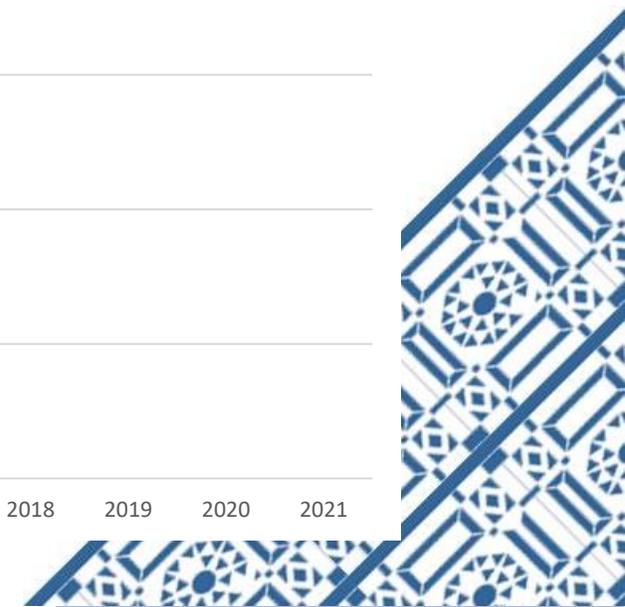
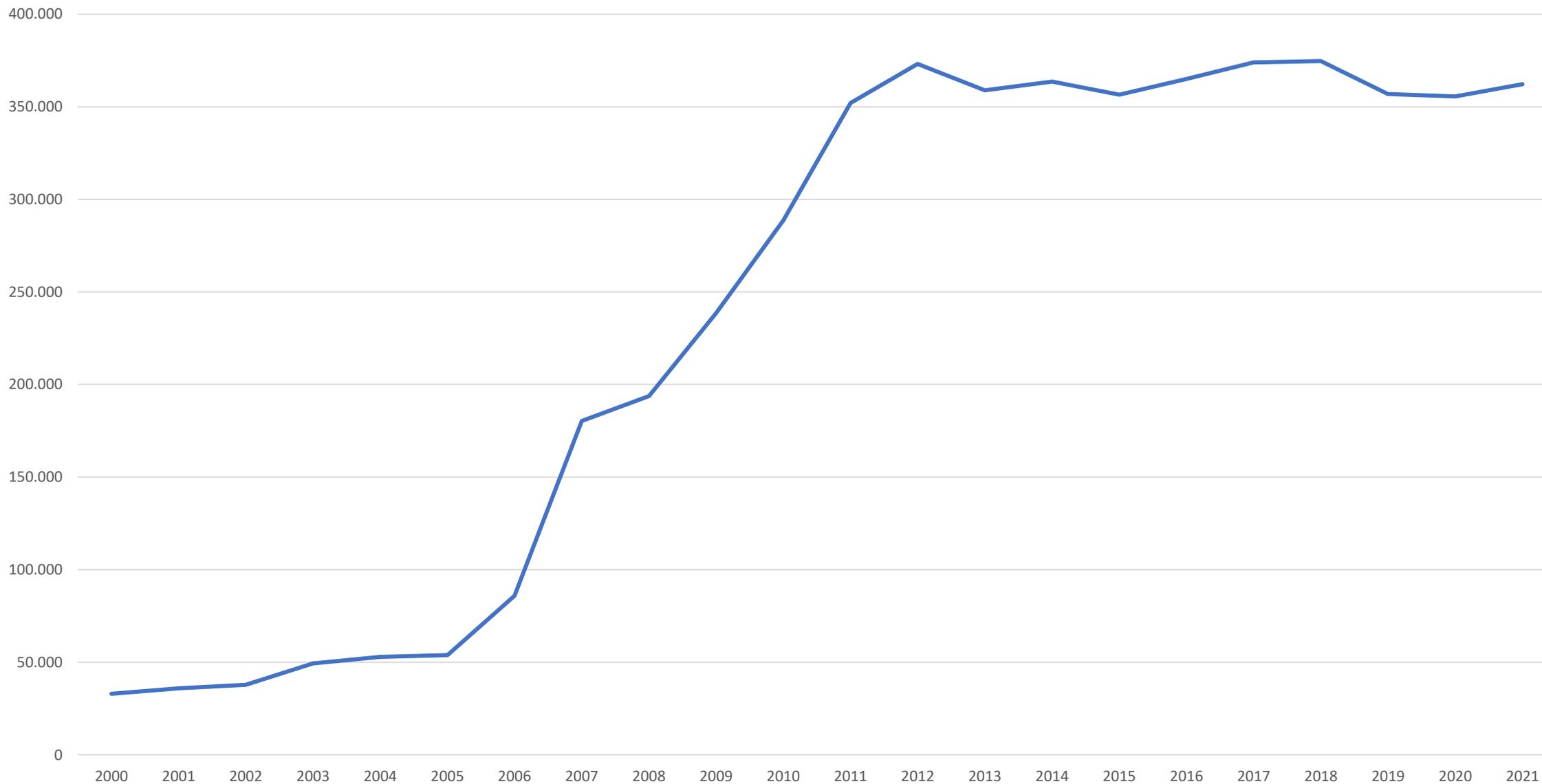
*Obrigado!*



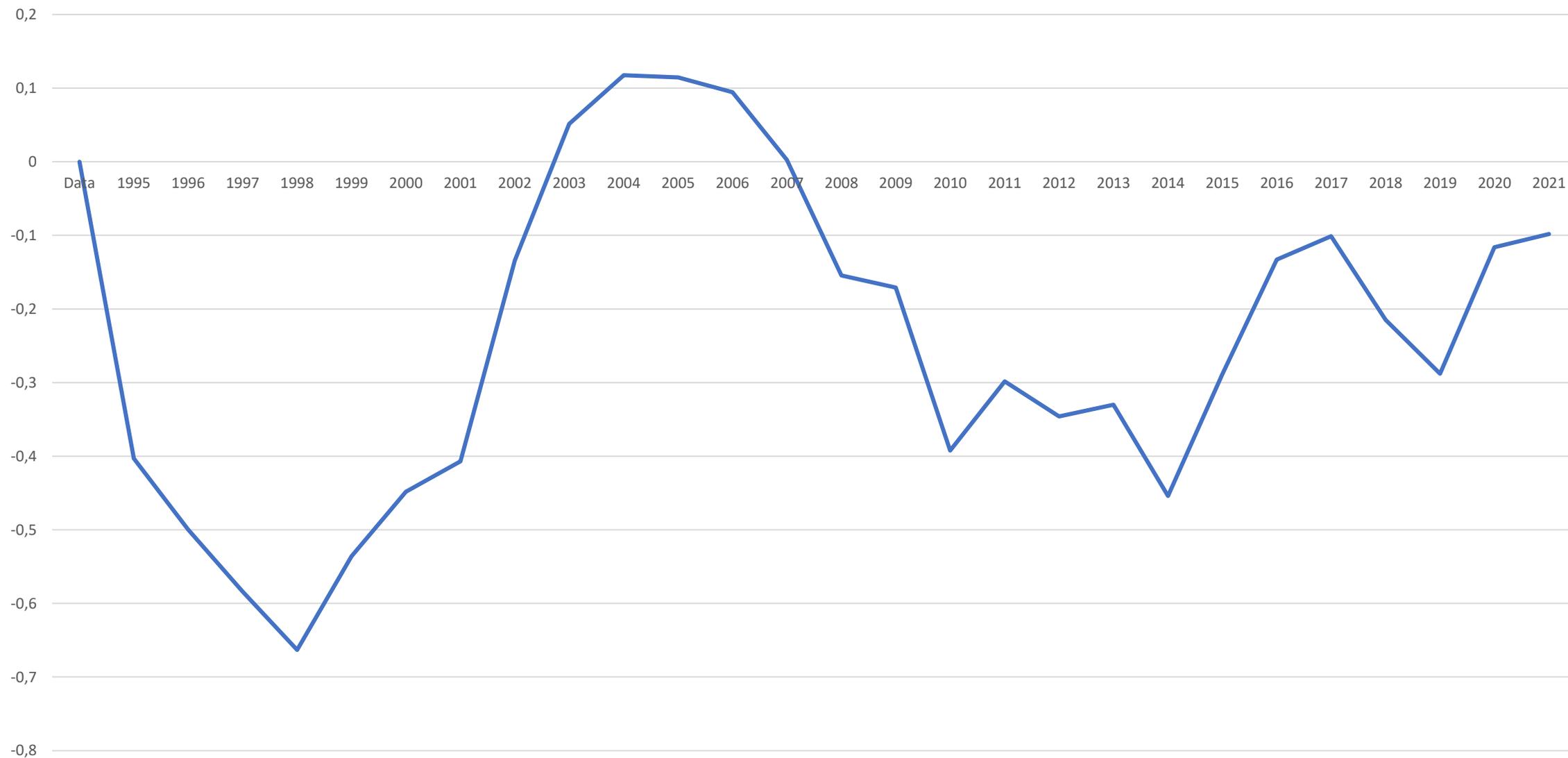
# Real Exchange rate



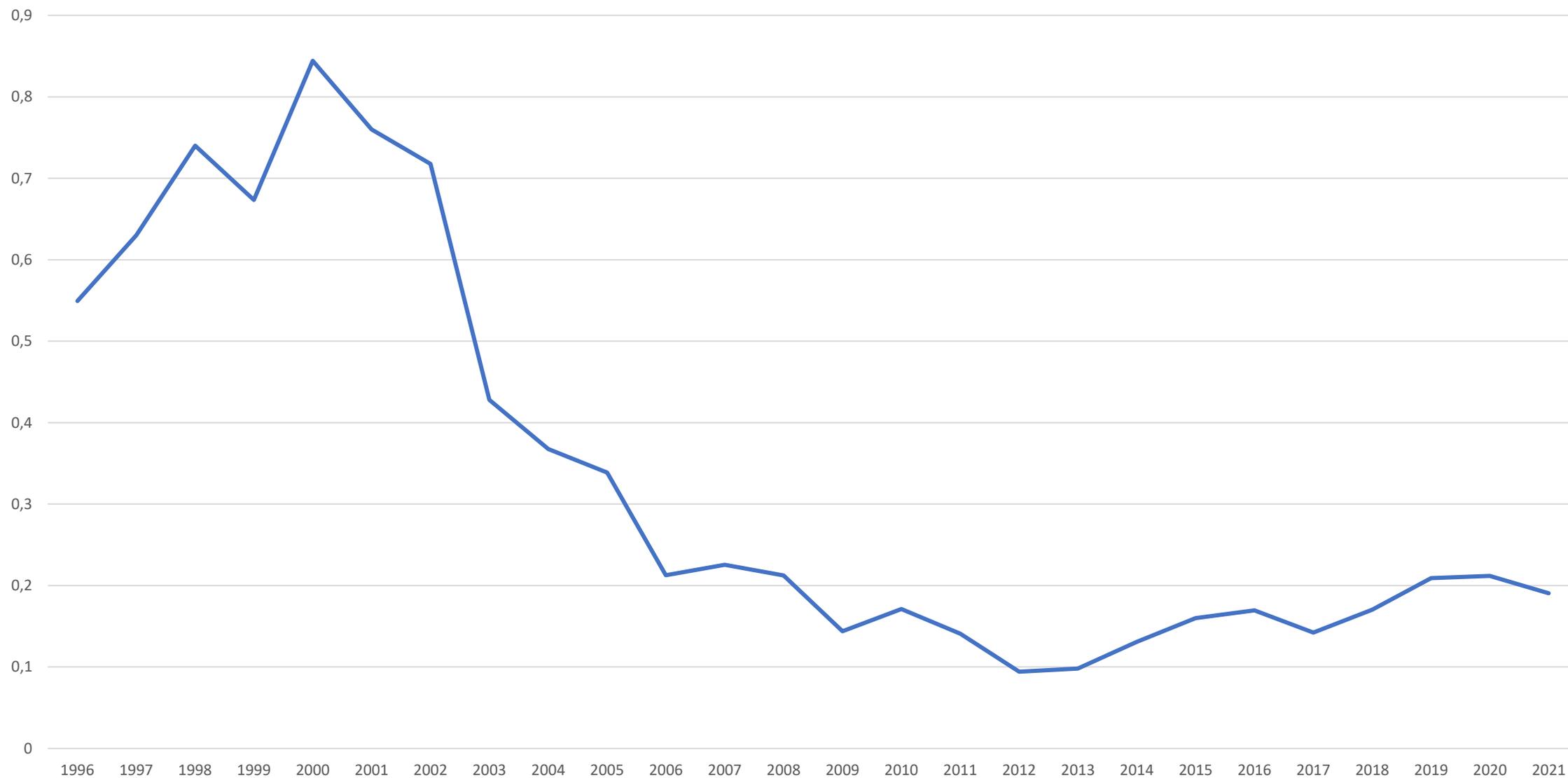
# International reserves

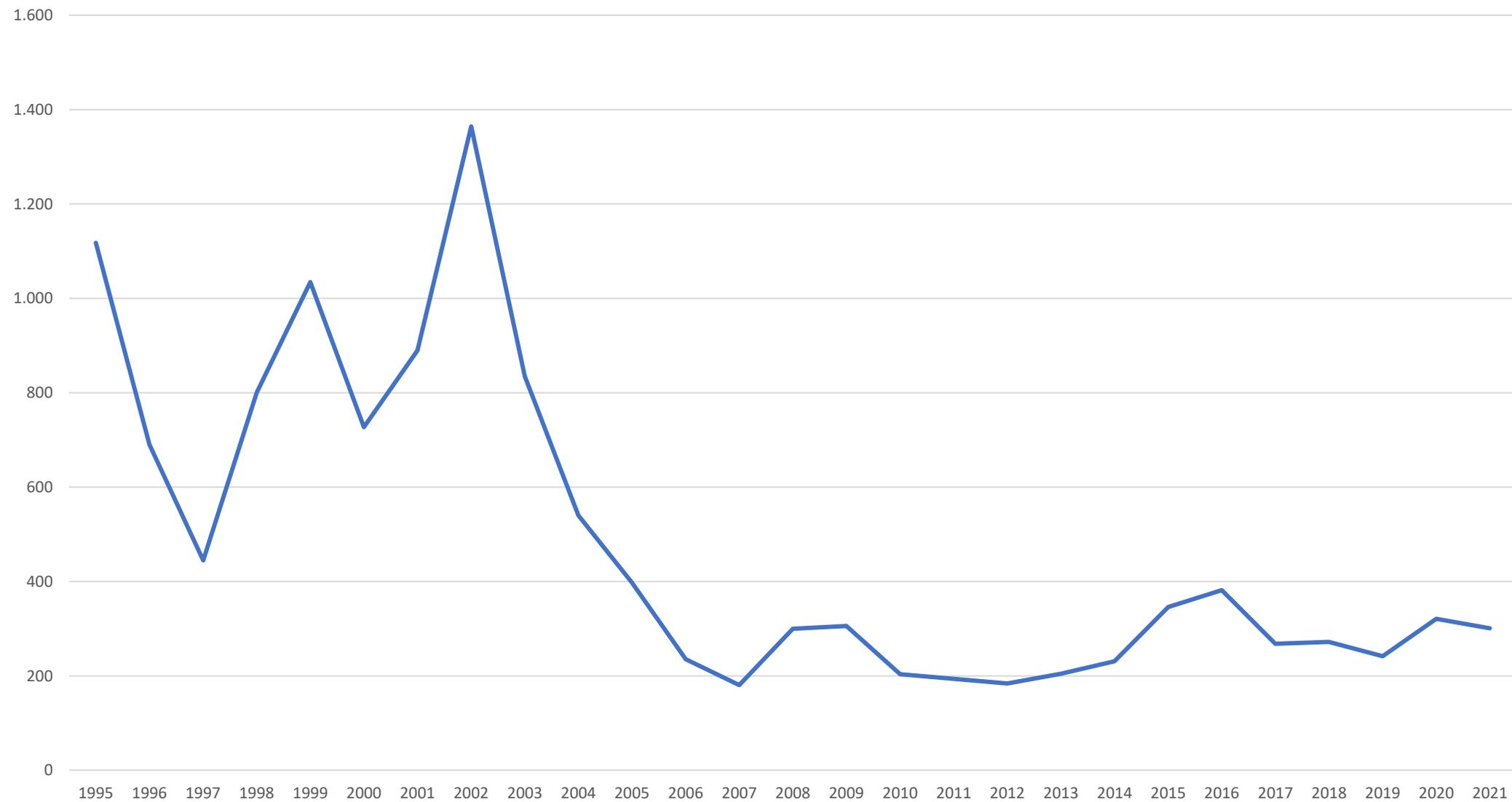


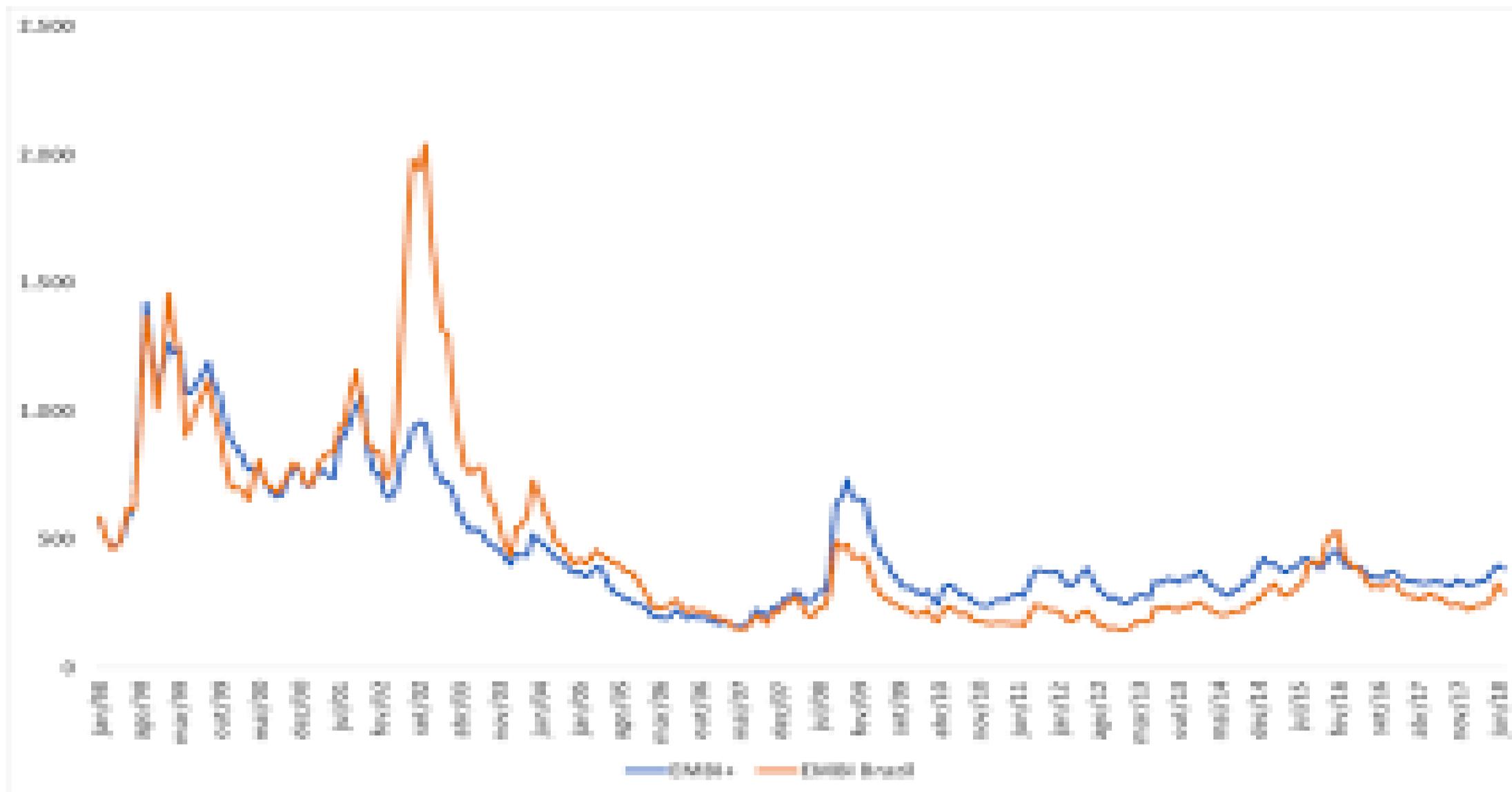
# Current Account Balance / Exports



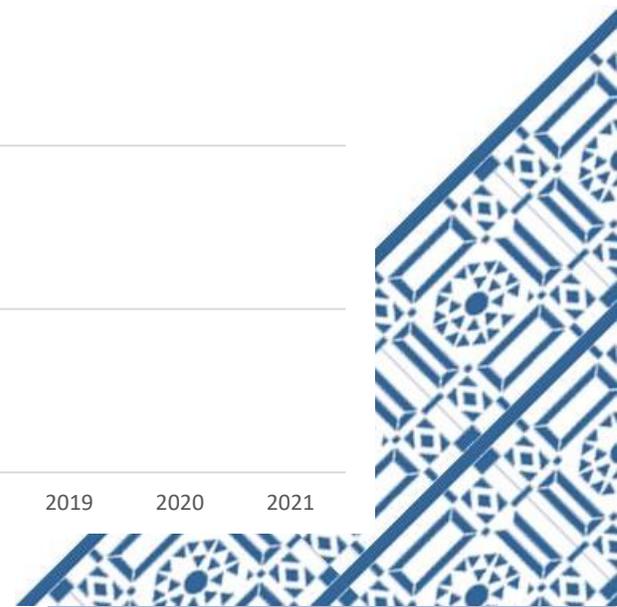
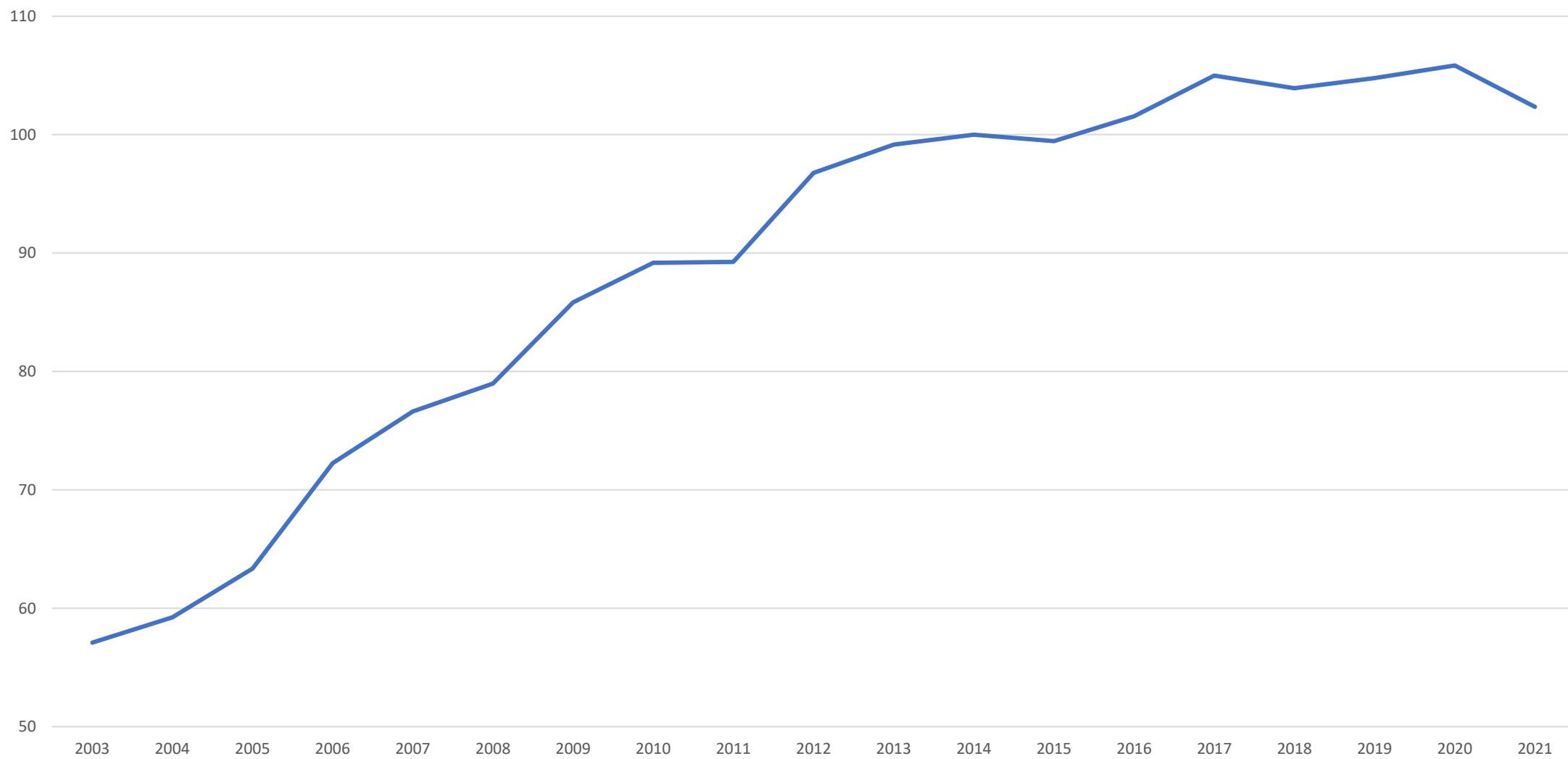
# Short-run external debt / Reserves

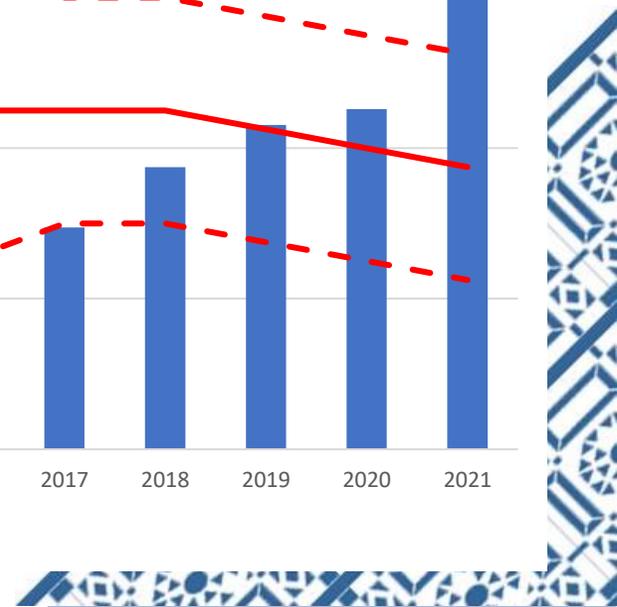




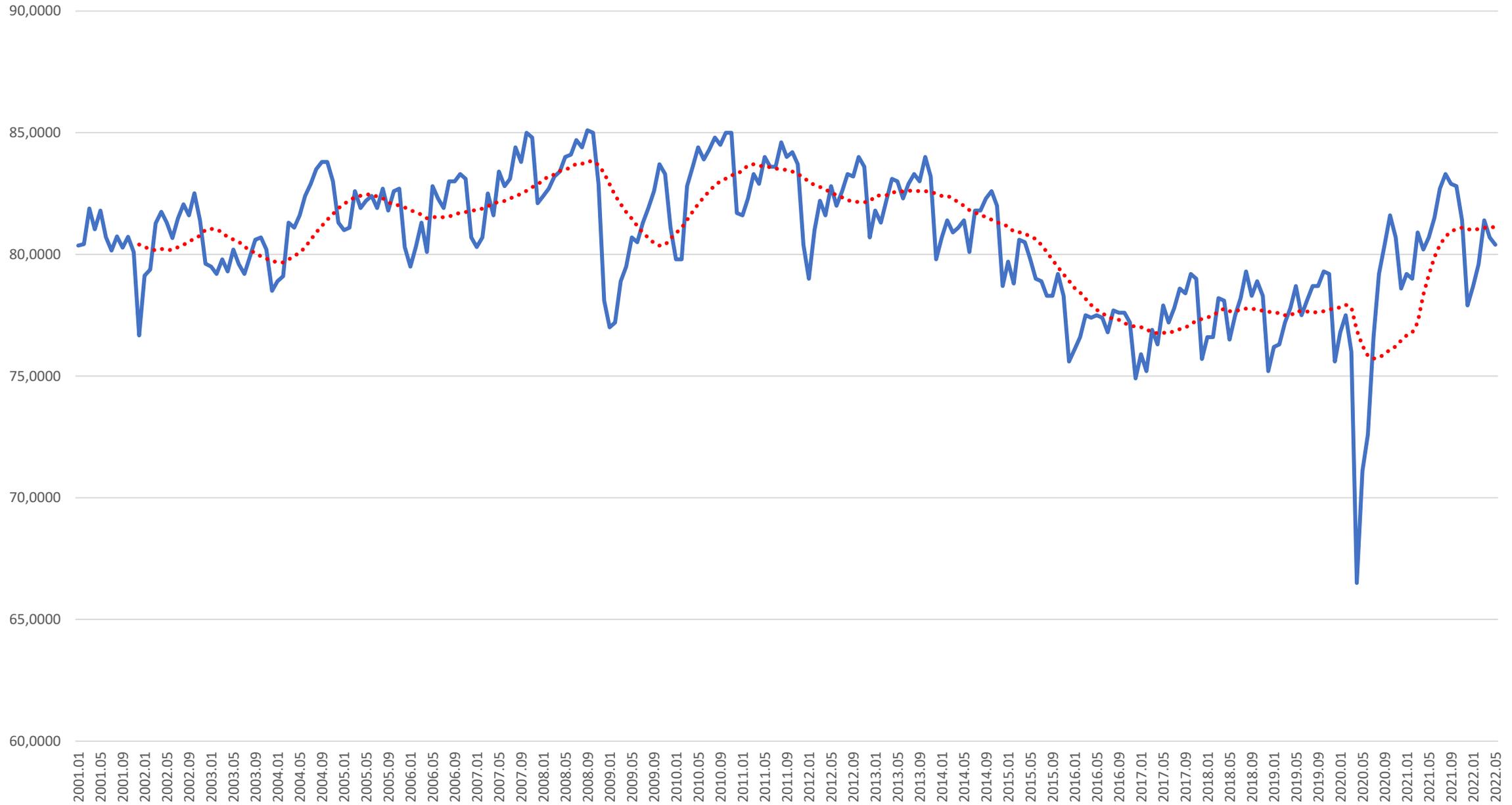


### Real minimum wage

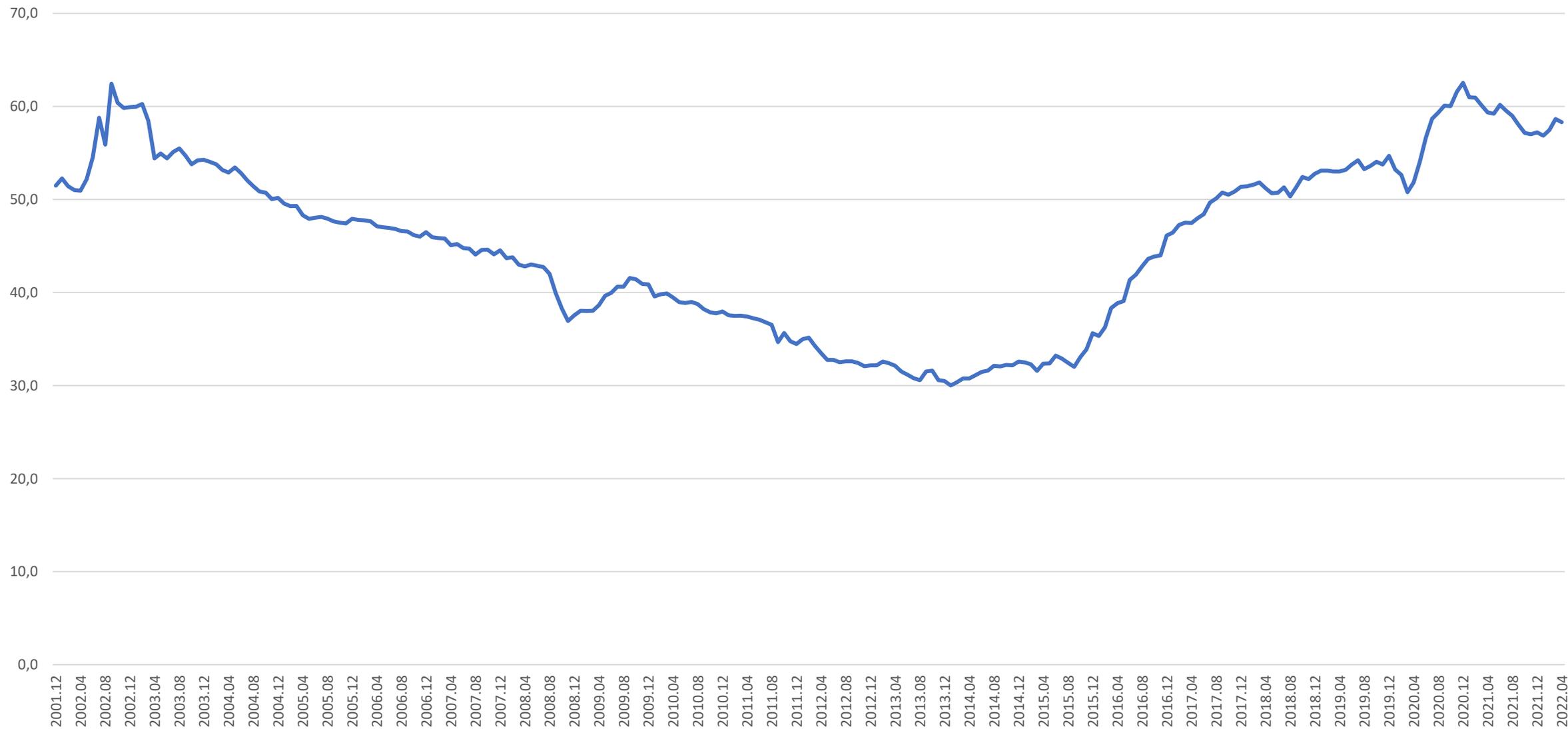




# Capacity utilization



### Net public debt / GDP



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