

Macgill Davis

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Brazil has garnered many names throughout its history. From ‘The Sleeping Giant’ to ‘The Country of Future Potential’ nearly every one referenced the country’s vast potential as a world economic power. After a several tumultuous decades of stagnant economic growth, Brazil entered the twenty-first century seemingly doomed to forever be a country of future potential. However beginning in 2004, the country embarked on a path of rapid economic expansion under its personable socialist president Luiz Inácio Lula da Silva (Lula) and the Workers Party (*Partido dos Trabalhadores*, PT). Moreover, differing from past booms, the economic success unfolded across Brazilian society tackling chronic problems of inequality and national debt. Under Lula, 40 million Brazilians rose above the poverty line while the federal government amassed a surplus of \$350 billion.<sup>1</sup>

On the world scene, the success of Lula overshadowed the achievements of the previous president, Fernando Henrique Cardoso. Cardoso and the Brazilian Social Democrat Party (*Partido da Social Democracia Brasileira*, PSDB) had been hailed for implementing the Real Plan (*Plano Real*) that stemmed hyperinflation and brought back

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<sup>1</sup> The World Bank (<http://www.worldbank.org/en/country/brazil/overview>)

economic stability after decades of volatility. However, in Brazil two conflicting narratives surrounding the presidents and their political parties have emerged. One account, promoted by supporters of Cardoso and the PSDB, alleges that the policies of Cardoso accomplished the difficult fiscal reforms and provided the stability necessary for economic growth. They depict Lula as an unskilled but fortunate populist who benefitted from being in the right place at the right time. On the other hand, advocates of the PT see Lula as a savior and champion of the common man who halted the destructive neoliberal reforms of the elitist Cardoso.

Many Brazilians view the situation as black and white with either Lula a savior and Cardoso an elitist, or Lula an imbecile and Cardoso savior.<sup>2</sup> After reading literature of the PT and PSDB including *Lula e Dilma* and *A Era do FHC*, it is clear that both parties view, or at least promulgate, a significant split between the Cardoso and Lula administrations (albeit the PT more than the PSDB). This research paper began on the basis of unearthing the truth behind those views. Whose policies should be accredited with the impressive economic growth Brazil has experienced over the last decade, those of Lula or Cardoso? With Brazil facing its first real economic downturn in a decade, this question appeared more pertinent than ever.

A closer examination unearths a reality far removed from the extreme narratives of the PT and PSDB. While both Cardoso and Lula faced different macroeconomic and international environments, their policies were characterized by continuity and

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<sup>2</sup> I am speaking from personal experience after spending one year living in Rio de Janeiro.

consolidation rather than rupture. Under their presidencies, the government reached unspoken consensus on several key policies that allowed for significant achievements. Despite this continuity, the economic ascent of China and the consequent commodity drove Brazilian economic expansion more than any governmental policy. Nonetheless, the policies of the Cardoso-Lula era attained economic stability, democratic consolidation, inequality reduction and increased external economic expansion in South America and Africa that bode well for the long-term prospects of Brazilian economic development. Brazil still must overcome several challenges that may hinder economic growth including environmental degradation, a severely lacking educational system and an overdependence on commodities. It is imperative to first examine the historical trajectory of Brazil and of the presidencies of Cardoso and Lula to understand their continuity as well as their impacts on the Brazil economy.

By the time of the election of Cardoso, Brazil had experienced more than two decades of extreme economic and political difficulties. The last extended economic success, labeled “the Brazilian Miracle”, had occurred under the reign of the military government in the 1970s, during foreign investment poured into the country and GDP averaged over 10 percent annual growth.<sup>3</sup> The government borrowed heavily to fund industrial growth and took on sizable foreign debt. When both oil prices and interests

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<sup>3</sup> Brazil's Big Moment: A South American Giant Wakes Up. Juan de Onis. *Foreign Affairs*, Vol. 87, No. 6

rates skyrocketed in the early 1980s, the economy collapsed and the military government soon gave way to democracy. Beginning in 1985 with the election of civilian José Sarney, the first years of democracy were characterized by hyperinflation and stagnant economic growth. From 1981 to 1993 Brazil annually averaged 762 percent inflation paired with a paltry 1.7 percent GDP growth.<sup>4</sup> The Brazilian government implemented several policies aimed at stifling hyperinflation such as the failed Cruzado Plan but the situation continued to worsen. In 1993, the year before the election of Cardoso, hyperinflation topped out at nearly 2500 percent.<sup>5</sup>

Stability eventually returned to Brazil through the implementation of the Real Plan in 1994. As Finance Minister, Cardoso led the execution of the Real Plan that tied a new Brazilian currency, the *real*, to the American dollar while raising interest rates. The plan succeeded rapidly in curbing inflation, which fell from 2,477 percent in 1993 to 22 percent in 1995.<sup>6</sup> Taming inflation proved enough for Cardoso to win the presidency over Lula in both the 1994 and 1998 presidential elections. While inflation remained under control, public debt in Brazil, particularly in state and municipal governments began to

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<sup>4</sup> Estabilidad y crecimiento en Brasil / Stability and growth in Brazil. Enestor Dos Santos. *Revista CIDOB*

*d'Afers Internacionals*, No. 97/98, EL BRASIL DE DILMA ROUSSEFF Balance del primer año

de Gobierno (ABRIL 2012), pp. 58

<sup>5</sup> Estabilidad y crecimiento en Brasil / Stability and growth in Brazil, 59

<sup>6</sup> Estabilidad y crecimiento en Brasil / Stability and growth in Brazil, 59

spiral out of control. After a number of economic shocks, such as the Russian crisis in 1998, Brazil was forced to go to the IMF for loan. In return for \$41.5 billion, the IMF demanded complete restructuring of the public sector as well as fiscal surplus of 3.1 percent of GDP in 1999, 3.3 percent in 2000, and 3.4 percent in 2001.<sup>7</sup>

In accordance with the IMF Cardoso began a process of neoliberal reform throughout Brazil. Cardoso privatized numerous state owned companies in the telecommunications, energy and mining sectors. Revenue from privatizations reached R\$103.3 billion dollars between 1996 and 2000.<sup>8</sup> Cardoso worked to recentralize the national banking industry and curbing state and municipal government spending. He sold off many state run banks that were notorious for their rampant spending and restructured the debt of over 180 municipalities.<sup>9</sup> Cardoso worked to alter the constitution from a document that mandated government spending to one that cultivated fiscal prudence. He abolished legislation that prohibited spending cuts, such as the Health Amendment (*Emenda da Saúde*), and passed the Fiscal Responsibility Law (*Lei de Responsabilidade*

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<sup>7</sup> Lamounier, Bolivar, Figueiredo Júnior, José Rubens De Lima, and André Lahóz. *A Era do FHC: Um*

*Balanço*. São Paulo, SP: Cultura Editores Associados, 2002. Print. 45.

<sup>8</sup> *A Era do FHC: Um Balanço*, 50

<sup>9</sup> *A Era do FHC: Um Balanço*, 49

*Fiscal*) that imposed limits on public debt.<sup>10</sup> Cardoso proved overall successful in meeting the goals set forth by the IMF, with fiscal surpluses of 3.1 percent of GDP in 1999, 3.3 percent in 2000 and 3.4 percent in 2001.<sup>11</sup>

Despite the many reforms undertaken by Cardoso, as the election of 2002 approached a shadow of economic crisis stretched over Brazil. Global economic prospects remained dim and neighboring Argentina had just experienced its worst economic crisis in history in December 2001. The Cardoso administration was embroiled in another round of negotiations with the IMF over loans to avoid economic collapse. The IMF was hesitant to agree to any bailout without a guarantee that the next presidential regime elected would respect the conditions of the agency.<sup>12</sup> Despite opposing nearly every reform enacted throughout the Cardoso presidency, Lula recognized the dire economic circumstances and proved to both a pragmatist and clever politician. In his famous 'Letter to the Brazilian People' (*Carta ao Povo Brasileiro*), Lula agreed to continue the macroeconomic policies of Cardoso, respect all debt payments and

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<sup>10</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era. Timothy J.

Power. *Latin American Research Review*, Vol. 45, Special Issue: Living in Actually Existing

Democracies (2010), pp. 230.

<sup>11</sup> *A Era do FHC: Um Balanço*, 46

<sup>12</sup> Panizza, Francisco. "Brazil Needs to Change': Change as Iteration and the Iteration of Change in Brazil's

2002 Presidential Election." *Bulletin of Latin American Research* 23.4 (2004): 476.

support any IMF agreement made by Cardoso. These pledges shaded Lula as a pragmatic moderate rather than a radical, which increased his appeal to large portions of the Brazilian electorate and prevented capital flight and financial collapse upon his subsequent election.<sup>13</sup>

As president, Lula remained true to his promises and continued the economic policies of Cardoso. In a clear message to financial markets, Lula named Henrique Meirelles, a former FleetBoston Financial executive and member of PSDB, as a head of the Central Bank of Brazil.<sup>14</sup> Lula also continued Cardoso's practice of giving the economic team and the Central Bank of Brazil the ability to act relatively independent of politics. Meirelles took advantage of that freedom and kept interest rates high for much of Lula's first presidency. While Lula did not continue the privatization of state companies, he also made no attempts at renationalization. Lula funded increased social spending through tax increases and reduction in public investments rather than debt. To the surprise of many, Lula's budgetary management resulted in Brazil paying off its IMF debt ahead of schedule.<sup>15</sup> Even when Brazil began a process of rapid economic growth,

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<sup>13</sup> 'Brazil Needs to Change': Change as Iteration and the Iteration of Change in Brazil's 2002 Presidential Election, 478

<sup>14</sup> Onis, Juan De. "Brazil's Big Moment: A South American Giant Wakes Up." *Foreign Affairs* 87.6 (2008): 119.

<sup>15</sup> Sader, Emir. *Lula E Dilma: 10 Anos De Governos Pós-neoliberais No Brasil*

Lula remained committed to the three major macroeconomic tenets that had emerged out of Cardoso's presidency – fiscal responsibility, zero tolerance of inflation, and exchange rate flexibility.<sup>16</sup>

Clearly continuity rather than rupture characterized the economic policies of Cardoso and Lula, but what about their social policies? Namely the *Bolsa Família* (Family Fund), conditional cash-transfer programs compose perhaps the most prominent policies of Lula and are credited with greatly alleviating poverty during his presidency. *Bolsa Família* provides money directly to poor families under the conditions that the families commit to keeping their children in school and taking them for regular health check ups.<sup>17</sup> Put into action in 2003, the *Bolsa Família* fulfilled the goal of the PT by reaching over 11 million families and 46 million people, roughly a quarter of the total population, within three years. Continuing to this day, the program supplies 99.9 percent of Brazilian households that make less than \$60 a month with immediate money.<sup>18</sup>

While many believe the *Bolsa Família* to be innovative creation of Lula, the program is an extension and consolidation of conditional cash-transfer programs implemented during the Cardoso presidency. Identifying the detrimental short-term

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<sup>16</sup> Estabilidad y crecimiento en Brasil / Stability and growth in Brazil, 55-66

<sup>17</sup> The World Bank ([www.worldbank.org](http://www.worldbank.org))

<sup>18</sup> Fenwick, Tracy Beck. "Avoiding Governors: The Success of Bolsa Família." *Latin American Research*

effects of devaluation to poorest Brazilians, Cardoso instituted several national conditional cash-transfer programs, including *Auxilio Gás* (Gas Aid), *Bolsa Alimentação* (Food Allowance), and *Bolsa Escola* (School Grant).<sup>19</sup> *Bolsa Escola* provided \$R15 to families for each child that attend school with a maximum of \$R45 per family.<sup>20</sup> The program experienced huge success, reaching over 5 million families before being replaced by the more extensive *Bolsa Família*.<sup>21</sup>

Closer examination reveals that the major policies of the Cardoso and Lula presidencies were marked by continuity rather than variance. This revelation should not depreciate the legacy of Lula. On the contrary, Lula deserves praise for recognizing, maintaining and consolidating successful policies – even those that did not align with his traditional socialist ideology. Lula merits acclamation for the expansion and consolidation of conditional cash-transfer programs that helped reduce inequality. Additionally, while not representing a break with those of Cardoso, Lula’s policies were not identical either. State spending and employment has gradually increased under Lula and no further privatizations have occurred. Nevertheless, the presidencies of Cardoso and Lula should be considered much closer to one era of general economic, political and social consensus rather than two contrasting administrations. If government policies

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<sup>19</sup> Avoiding Governors: The Success of Bolsa Família, 113

<sup>20</sup> Avoiding Governors: The Success of Bolsa Família, 112

<sup>21</sup> Avoiding Governors: The Success of Bolsa Família, 112

remained primarily consistent, why did Lula experience significantly higher rates of economic growth compared to Cardoso?

A number of factors aided Lula in achieving economic success. An improved macroeconomic environment resulted in massive inflows of foreign direct investment and increased global trade. In addition, the structural reforms and fiscal adjustment taken by Cardoso necessitated time to unfold. The painful government reforms enacted by Cardoso provided Lula with a clean national balance sheet and fiscal surplus. However, more than any governmental policy, Chinese economic ascension and a commodity boom drove Brazilian economic expansion under Lula.

Rising to the second largest economy in the world, China experienced tremendous economic growth over the past decade. During this period, the Chinese economy became the world's preeminent manufacturing hub. Of all nations, Brazil was especially impacted by Chinese economic growth. Under Cardoso, Sino-Brazilian trade increased fivefold to over \$8 billion by 2002. Lula and Chinese president Hu Jintao worked to develop a strong trade relationship. Both presidents visited their respective countries in 2004 and Lula returned to China again in 2010 with a large delegation.<sup>22</sup> The two countries were ideal trading partners and trade soared. The Chinese share of Brazilian exports increased from just under two percent in 1999 to over 15 percent in 2010.

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<sup>22</sup> Jenkins, Rhys. "China and Brazil: Economic Impacts of a Growing Relationship", *Journal of Current*

Averaging over 10 percent GDP growth per year, the Chinese economy required huge amounts of resources and commodities. Chinese demand lifted commodity prices to record highs and Brazil benefited from both direct trade with China and inflated commodity prices. The indices of primary commodity goods show that commodity prices more than doubled between 2004 and 2008.<sup>23</sup> As the one of the world's largest commodity exporters, high commodity prices resulted in increased profits for Brazilian farmers and agro-business as well as an influx of investment. Brazil exported 89 percent of its iron ore, 83 percent of its soybeans, 65 percent of its crude oil and 20 percent of its soybean oil to China.<sup>24</sup> By 2010, China had replaced the United States as Brazil's largest trading partner.

An examination of recent Brazilian economics reveals that commodity exports largely fueled growth. The regions of Brazil that experienced the highest economic growth included the central-west where in states like Mato Grosso soy production escalated rapidly.<sup>25</sup> The discovery of deep-sea oil deposits off the coast of Southeastern Brazil brought in billions of dollars of investment. Mining projects boomed throughout

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<sup>23</sup> International Monetary Fund

<sup>24</sup> The Dragon in the Room: China and the Future of Latin American Industrialization

<sup>25</sup> Vanwey, L. K., S. Spera, R. De Sa, D. Mahr, and J. F. Mustard. "Socioeconomic Development and

Agricultural Intensification in Mato Grosso." *Philosophical Transactions of the Royal Society B:*

Biological Sciences 368.1619 (2013): 20120168. Print.

Brazil, highlighted by Ike Batista's \$8.8 billion Minas Rio iron ore project.<sup>26</sup>

Commodities dominated Latin American trade with China, Brazil's biggest trading partner. Eight commodities generated 80 percent of all exports to China – copper alloy, iron ore, pulp and waste paper, soybeans, crude metal, crude petroleum, soybean oil, and feedstuff.<sup>27</sup>

While the resource industry boomed, Brazilian industrial output grew much more moderately. Brazilian manufactured exports suffered as high commodity prices caused the Brazilian *real* to appreciate relative to many major trading partners.<sup>28</sup> During the first five years of Lula's presidency the *real* appreciate 58 percent against the American dollar working to undermine Brazilian industry.<sup>29</sup> The most glaring indicator of Brazilian dependence on high commodity prices and Chinese growth has come within the past couple years. As Chinese economic growth has slowed and commodity prices have fallen

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<sup>26</sup> MacDonald, Alex. "Anglo American Secures Sales Pacts for Brazil's Minas Rio Iron." *The Wall Street Journal*. Dow Jones & Company, 12 Dec. 2013. Web. 14 May 2014.

<sup>27</sup> The Dragon in the Room: China and the Future of Latin American Industrialization

<sup>28</sup> Barbosa-Filho, Nelson H. "An Unusual Economic Arrangement: The Brazilian Economy during the First Lula Administration, 2003–2006." *International Journal of Politics, Culture, and Society* 19.3-4 (2008): 193-215. Print.

<sup>29</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 228

the Brazilian economy has struggled. As iron ore prices plunged Brazilian GDP achieved just 1 percent growth in 2012.

Undoubtedly, the policies of Lula and Cardoso were necessary for Brazil to be able to take advantage of historic commodity prices and greatly improve national wealth. Hyperinflation had crippled the Brazilian economy for years and its containment was critical for economic growth. The fiscal responsibility administered under Cardoso and Lula removed Brazil from the continual brink of default and created breathing room for the government to function more efficiently. Between 2002 and 2014, net public debt has fallen from 39.9 percent to 30 percent of GDP.<sup>30</sup> In fact, Brazil has become a creditor nation, amassing over \$350 billion in foreign reserves.<sup>31</sup> Nonetheless, the principle driver behind recent Brazilian economic growth remains China. However, perhaps more importantly, the policies of Lula and Cardoso profoundly increased the prospects for sustainable economic development in Brazil.

The restructuring performed under Cardoso recentralization of the banking system under the national government, improving its ability to implement future policy. As subnational politicians drove Brazil's transition from authoritarian government to democracy, states and municipalities commanded the 1988 National Constituent Assembly. As a result, the 1988 Constitution awarded broad fiscal privileges to states and

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<sup>30</sup> Estabilidade e crescimento en Brasil / Stability and Growth in Brazil, 63

<sup>31</sup> The World Bank (<http://www.worldbank.org/en/country/brazil/overview>)

municipalities diminishing federal power. This resulted in rampant spending and debt accumulation by states and municipalities and forced Cardoso to enact profound structural reform.<sup>32</sup> Cardoso's restructuring returned fiscal authority to the federal government and prevented state governors from undertaking spending sprees as they had done in the past. The Fiscal Responsibility Law (LRF) enforced hard budget limitations on states including the prohibition of states incurring public debt in excess of 120 percent of current revenue.<sup>33</sup> The restructuring allowed for the federal government to avoid state governors and work directly with municipalities to initiate the wildly successful conditional cash-transfer programs of Cardoso and Lula.<sup>34</sup> This fundamental shift in power from the states to the national government has improved fiscal health of Brazil and eased the ability to implement policies crucial for future economic growth. Additionally, recentralization of power under Cardoso and Lula decayed the influence and capacity of political bosses in the poorest regions of Brazil.<sup>35</sup>

One of the most acclaimed accomplishments of the Lula-Cardoso era was the reduction of societal inequality and expansion of the middle class. Unlike Lula, Cardoso is not generally associated with reducing inequality in Brazil. Poverty rates throughout

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<sup>32</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 230

<sup>33</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 230

<sup>34</sup> Avoiding Governors: The Success of Bolsa Família

<sup>35</sup> Avoiding Governors: The Success of Bolsa Família

Cardoso's presidencies only dropped 2.1 percent.<sup>36</sup> However, the Gini coefficient in Brazil, a measurement of income inequality, fell 3 percent from 0.601 to 0.589 between 1994 and 2002.<sup>37</sup> This modest reduction in inequality occurred amidst neoliberal reforms, which have traditionally increased inequality in Latin America. Indeed, the Brazilian Gini coefficient spiked from .583 to .604 during the much more modest neoliberal reforms of Brazilian president Fernando Collor de Mello in the early 1990s.<sup>38</sup> Curbing hyperinflation enormously helped shrink the inequality gap as inflation acted as a de facto tax on the poor.<sup>39</sup> Additionally, both Cardoso and Lula regularly raised the minimum wage over the inflation rate. The real minimum wage increased every year between 1994 and 2002 and more than doubled over that same time period.<sup>40</sup>

By all measurements inequality fell much more drastically during the presidency of Lula, reaching a 50 year low in 2010.<sup>41</sup> Poverty fell from 21 percent of the population in 2003 to 11 percent in 2011 and extreme poverty (people living with \$1.25 per day) has

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<sup>36</sup> Avoiding Governors: The Success of Bolsa Família, 113

<sup>37</sup> IPEADATA ([www.ipeadata.gov.br](http://www.ipeadata.gov.br))

<sup>38</sup> IPEADATA ([www.ipeadata.gov.br](http://www.ipeadata.gov.br))

<sup>39</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 234

<sup>40</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 224

<sup>41</sup> The World Bank

dropped from 10 percent in 2004 to 2.2 percent in 2009.<sup>42</sup> While Lula expanded conditional cash-transfer programs, he also promoted popular credit much more effectively than Cardoso. Brazilian credit market grew from 24 percent of GDP in 2003 to more than 45 percent in 2009.<sup>43</sup> Much of the credit growth resulted from the expansion of middle and lower class credit expansion or *crédito popular*.<sup>44</sup> A broader access to credit has proved a valuable tool in reducing income inequality. The Gini coefficient fell from 0.583 in 2002 to 0.532 in 2010 and reached a 50-year low of 0.519 in 2011. Throughout the Cardoso-Lula era, the wealth gap between the richest and poorest Brazilians reached the lowest point in decades and continues to fall.

Studies have shown consistently that declining inequality favorably impacts economic growth. A study by Kang H. Park in the *American Journal of Economics and Sociology* proved that the greater the income inequality of a country the greater the level of socio-political instability and the greater level of socio-political instability the slower the economic progress.<sup>45</sup> Brazil's experience over the last three decades supports this research, as political instability peaked with income inequality under Collor.

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<sup>42</sup> The World Bank

<sup>43</sup> Brazilian Government, "Desafios do crédito em tempo de crise" (2009)

<sup>44</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 226

<sup>45</sup> Park, Kang H. "Income Inequality and Economic Progress: An Empirical Test of the Institutional

Approach." *American Journal of Economics and Sociology* 55.1 (1996): 87-97.

Research by the World Bank similarly found that sharing economic growth across society further stimulates economic expansion.<sup>46</sup> A recent study by Michael Grimm at Oxford showed that reducing inequality in healthcare and access to healthcare can substantially contribute to economic growth.<sup>47</sup>

Economic implications of inequality reduction in Brazil include the expansion of the middle class. Real rising wages has lifted millions out of poverty and into the middle class, which has grown rapidly over the past two decades. Data have shown the expansion of the middle class associates with higher income and higher growth, as well as more education, better health, better infrastructure, better economic policies, less political instability, less civil war and more democracy.<sup>48</sup> Studies from the nonprofit Ewing Marion Kauffman Foundation even correlate economic entrepreneurship with the middle class.<sup>49</sup> Unlike the poor, the middle class has the money to travel domestically,

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<sup>46</sup> Birdsall, Nancy and Ross, Davis and Sabot, Richard. "Inequality and Growth Reconsidered: Lessons from East Asia" *World Bank Economic Review*. (1995) 9 (3): 477-508.

<sup>47</sup> Grimm, M. "Does Inequality in Health Impede Economic Growth?" *Oxford Economic Papers* 63.3 (2011): 448-74. Print.

<sup>48</sup> Easterly, William. "Session 2A: Values and Economic Growth: The Middle-Class Consensus and Economic Development." *The Journal of Economic History* 61.2 (2001): 518. Print.

<sup>49</sup> Tankersley, Jim. "The 100% Economy: Why the U.S. Needs a Strong Middle Class to Thrive." *The Atlantic*. Atlantic Media Company, 18 May 2012. Web. 13 May 2014.

send their children to school and consume luxury goods yet must still rely heavily on public goods and services. While the rich can fly private, pay for a private doctor or send their children to private school, members of the middle class are much more likely send their children to public school, use public healthcare and take public transportation. Therefore, a larger middle class generally pushes the state to end corruption and improve key sectors including infrastructure, healthcare and education that aid in sustainable economic growth. This already appears to be unfolding in Brazil as large-scale protests against corruption and poor public services occurred in Brazil just last year. The biggest public protests since the military government pushed the Brazilian government to further commit to fight corruption.

Furthermore, inequality reduction has immensely augmented the Brazilian domestic market. From orange juice to airplane travel, the consumption of nearly every good and service rose throughout the Cardoso-Lula era. Along with ending hyperinflation, the privatizations and liberalization policies of Cardoso played a role in developing Brazilian consumption by lowering costs in a number of extremely inefficient sectors. Cardoso privatized heavily in the energy sector that averaged 5 to 6 percent growth a year during Lula's presidency. While Cardoso's amendment to end the state monopoly on telecommunications was extremely unpopular at the time, Brazilian domestic telecommunication market has soared since. Brazil contained roughly 13 million landlines in 1995 and essentially no cellular phones; by 2010 those numbers had

ballooned to 43 million and 180 million.<sup>50</sup> The number of telephones today exceeds the total population. Similarly, private automobile ownership hit a record high of 25 million in 2010 and the number of airplane passengers soared from 11 million in 1985 to 71.5 million in 2003 to 110.5 million in 2007, a stunning overall increase of more 10000 percent.<sup>51</sup>

A larger domestic consumption market provides a home for the products of Brazilian companies. Growth in Brazilian consumption of cars and planes correspondingly augmented Brazilian production of those goods. Despite fewer subsidies, the Brazilian auto industry has doubled annual car production from 1.5 million to 3 million since 1994.<sup>52</sup> Likewise Embraer, Brazil's largest airplane manufacturer, climbed from the brink of bankruptcy in 1994 to become the world's number one maker of midsize aircraft and third largest commercial aircraft producer behind Boeing and Airbus.<sup>53</sup> Between 2002 and 2014, the Brazilian domestic private goods' market share increased from 0.2 percent to 1.8 percent globally and from 61.9 percent to 73.6 percent

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<sup>50</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 225

<sup>51</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 225

<sup>52</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 225

<sup>53</sup> Williams, Christopher. "Brazil's Embraer Could Fly High." *The Wall Street Journal*. Dow Jones &

in Latin American, a trend that appears set to continue.<sup>54</sup> A sizable domestic market bodes well for Brazilian industry and economic prospects as a whole. Furthermore, it offers the government a larger tax base to fund state spending while avoiding massive public debt. Cardoso and Lula both expanded tax collection to fund state spending including Lula's recent Growth Acceleration Plan (*Programa de Aceleração do Crescimento*, PAC) in 2007.

Equally critical for sustained economic development, Cardoso and Lula stabilized, consolidated and institutionalized Brazilian democracy, setting the stage for long-term political stability in Brazil. The rise of a consolidated party system dominated by the PT and PSDB lowered political volatility and limited the rise of "populist adventurism" or "politics of outbidding."<sup>55</sup> Before the election of Cardoso, Brazilian democracy was marked by volatility and moderate instability with the populist Collor winning the presidency in 1990 before being impeached in 1992. Subsequently, political volatility dropped to 27.6 percent in the 2006 elections after averaging 43 percent in the first three election cycles.<sup>56</sup> Meanwhile, national political participation has risen in every election since 1985, reaching a historic high of 67 percent in the 2006 election.<sup>57</sup> Despite

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<sup>54</sup> Estabilidade e crescimento en Brasil / Stability and Growth in Brazil, 61

<sup>55</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 226

<sup>56</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 226

<sup>57</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 226

a fragmented party system, the PT and PSDB have risen as the dominant national parties, jointly receiving 90.3 percent of the vote in the first round of the presidential race in 2006.<sup>58</sup>

The drop in political volatility and the ascension of the PT and PSDB allows for improved policy making in Brasília with more national coordination and increased outlook. Additionally, just like the policies Lula and Cardoso, the platforms of the PT and PSDB should be characterized much more by similarity than difference. Although the parties directly compete, they have formed an unspoken consensus on important issues regarding monetary, fiscal, and social policy as well as foreign policy. General agreement on these issues has allowed for a number of real socioeconomic successes. The *Bolsa Família*, a result of both parties' policies and an unquestionable success, stands as an ideal example. The unacknowledged nature of these general agreements also leaves room for the two parties to innovate and adjust their policies accordingly.

The practice of coalition forming by Lula and Cardoso increased governmental cooperation and party inclusion. In spite of their similarities, the PT and PSDB often form coalition with smaller parties whose beliefs do not often align with their own. As president, Cardoso often formed coalitions with the conservative Liberal Front Party (*Partido da Frente Liberal*, PFL) and the Brazilian Worker's Party (*Partido Trabalhista Brasileiro*, PTB) despite contrasting opinions on many issues. Lula continued this

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<sup>58</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 226

practice as president, forming coalitions with parties such as the PTB, the Liberal Party (*Partido Liberal*, PL), and the Progressive Party (*Partido Progressivo*, PP).<sup>59</sup> Essentially an executive precedent, this practice proved valuable in effectively governing and creating legislation in Brazil's fragmented party system while allowing for political inclusion of nearly all political parties. This is important both for political stability and government efficacy required for sustainable economic expansion. In sum, democracy in Brazil consolidated and thoroughly strengthened under the guidance of Cardoso and Lula. The result is a Brazilian democracy that appears well equipped to govern effectively and create policy necessary for long-term economic growth.

Brazilian foreign policy during the Cardoso-Lula era considerably escalated Brazilian foreign involvement and opened new markets to Brazilian companies. Cardoso began a process of participation regional and international participation. In the first year of Cardoso's presidency, Brazil signed the Final Act of Marrakesh that created the World Trade Organization (WTO) as well as the Ouro Preto Protocol that continued the Southern Common Market (*Mercado Común do Sul*, MERCOSUR) customs union. This policy move represented a move away from the Import Substitution Industrialization and developmentalist logic of 'autonomy through distance' that had dominated foreign policy for fifty years. The international strategy undertaken by Cardoso, labeled 'autonomy through participation', included cooperation in international institutions

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<sup>59</sup> Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era, 232

without surrendering too much national sovereignty in order to influence the shape of international system.<sup>60</sup>

While Cardoso worked to increase relations with developed nations, such as the European Union and the United States, he also expanded Brazilian connections among the developing states. Brazilian presence in Africa expanded with the establishment of the Community of Portuguese Speaking Nations that included the African nations of Mozambique, Angola, Guinea-Bissau, Capo Verde and São Tomé e Príncipe. Furthermore, as a balance against American unilateralism, Cardoso enhanced economic and political relations with India, China and South Africa.

Lula expanded Brazilian foreign involvement, especially amongst developing nations of the South. A central aspect of Lula's foreign policy, labeled "autonomy through diversification", involved the promotion of South-South economic cooperation. The Declaration of Brasília in 2003 created IBSA or the G-3 a forum for increased economic cooperation between India, Brazil and South Africa.<sup>61</sup> Lula worked to better relations with China and Russia while expanded the Brazilian role in Africa and MERCOSUR. It is important to note that international economic participation was not taken indiscriminately under Lula. Lula played a large role in defeating proposed Free

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<sup>60</sup> Vigevani, Tullo, and Gabriel Cepaluni. "Lula's Foreign Policy and the Quest for Autonomy through Diversification." *Third World Quarterly* 28.7 (2007):1309. Print.

<sup>61</sup> Lula's Foreign Policy and Quest for Autonomy through Diversification, 1316

Trade Area of the Americas (FTAA), which he believed would overwhelmingly harm the Brazilian economy. However, Lula adeptly kept relations cordial with developing nations such as the United States, Japan and the European Union. In spite of thwarting George Bush's FTAA, Lula fostered a sincere friendship with the American president.

Lula further Brazilian economy integration with South American by consolidating the country's role in MERCOSUR. The customs union first came into existence when Brazil, Argentina, Paraguay and Uruguay signed the Treaty of Asuncion in March 1991. The previously mentioned Ouro Preto Protocol continued and strengthened the union. Economic turbulence seemed to undermine Mercosur throughout the last term of Cardoso. When Cardoso approved the devaluation of the Brazilian *real* in 1999 he failed to consult Argentina and nearly killed the customs union. Additionally, the Argentine economic crisis in 2001 weakened trade between the union's two largest countries. Lula worked with the Kirchners in Argentina to successfully reignite regional trade. The 2005 Mercosur summit at Mar del Plata was marked by collaboration during which Brazil and Argentina forged several agreements. Since then, Mercosur trade has continued to expand with Venezuela joining in 2012.

Foreign policy of Cardoso and Lula has important and positive implications for the long-term economic development of Brazil. More active participation in international regimes will continue to allow Brazil to influence international trade to their advantage, even in opposition of more economically developed nations. Via the WTO, Brazil won a 2003 case against the United States concerning cotton subsidies, forcing the United

States Congress to redesign its agricultural policies.<sup>62</sup> By fostering relations with other emerging nations, Brazil can use multilateralism to minimize leverage economic negotiations with developed nations as well. By continuing to diversify its international trade, Brazil has lowered its dependence on any one country, increasing its ability to weather foreign state or regional economic crisis.

MERCOSUR and developing African states provide markets for Brazilian industrial sector. As Brazil hopes to move from a developing to developed economy, it must promote the manufacturing of industrial and high tech goods. Brazil has benefited immensely from MERCOSUR opening up South American economies to Brazilian firms. Brazilian firms are posed to continue their expansion in MERCOSUR as economy of scale economics provide them with a natural advantage due to Brazil's greater domestic market. Inspection of MERCOSUR trade reveals that Brazilian takes the roll of a developed economy with manufactured goods composing 90 percent of exports to MERCOSUR states compared to 30 percent to the European Union.<sup>63</sup> Trade with Africa,

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<sup>62</sup> Cason, Jeffrey W. and Power, Timothy. "Presidentialization, Pluralization, and the Rollback of

Itamaraty: Explaining Change in Brazilian Foreign Policy Making in the Cardoso-Lula Era."

*International Political Science Review* vol. 30 no. 2 (2009): 129.

<sup>63</sup> De Paiva Abreu, Marcelo, and Rogério Werneck. *The Brazilian Economy from Cardoso to Lula: An*

*Interim View*. Rep. 504th ed. Rio De Janeiro: Departamento Da PUC, 2005. Print. Texto Para

Discussão.

which grew 20 percent between 2002 and 2010, is similarly marked by high proportion of value-added products.<sup>64</sup> With help from the Brazilian Development Bank (BNDES), Brazilian companies have major actors in mining, infrastructure development, oil extraction and refinement, construction, and transit in countries from Colombia and Peru to Venezuela and Angola.<sup>65</sup> Both MERCOSUR and Africa are projected to continue to grow as markets. Africa is home to some of the fastest growing economies in the world while MERCOSUR encompasses 12 million square meters, 250 million people, and combined member nation GDP of over \$3 trillion. Undoubtedly, MERCOSUR and African nations have emerged as valuable markets for future Brazilian economic development and modernization.

The policies of Cardoso and Lula forged a unique, innovative and inherently *Brazilian* economic model to guide future Brazilian governments. Cardoso and Lula pulled strategies from the Washington Consensus, Chinese Statism and developmentalist ideology to create a novel economic policy. Getúlio Vargas altered Brazilian economic policy immensely and his developmental ideology impacted Brazil for decades. This system, based on Import Substitution Industrialization funded by public debt, proved to be largely unsustainable. Throughout the turbulent 1980s Brazil struggled to construct a

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<sup>64</sup> Stolte, Christina. Brazil in Africa: Just Another BRICS Country Seeking Resources?

<sup>65</sup> Sweig, Julia E. "A New Global Player: Brazil's Far-Flung Agenda." *Foreign Affairs* 89.6, The World

new coherent policy and the economy suffered accordingly. This new ideology, labeled by some as “liberal neo-developmentalism”, combines stable macroeconomic policy of the Washington consensus with an active state the primary owner and investor in industry.<sup>66</sup> This ideology appears to significantly more flexible and sustainable than ISI and has given Brazilians new hope for economic ascension. Furthermore, the ideology is innately Brazilian and therefore fit to match Brazilian economic needs. Nevertheless, the Brazilian economy still faces many challenges along its road to economic development.

The Brazilian economy remains over-dependent on commodities exports to fuel economic growth. As touched on earlier, commodity exports, mostly destined for China, were the primary driver behind Brazilian economic growth. Commodity exports have risen from 6 percent in the 1990s to 14 percent of GDP today.<sup>67</sup> Commodity prices tend to go through periods of boom and bust. Economies too dependent upon commodities are consequently more volatile, experiencing similar periods expansion and contraction. Economic volatility can cause political instability as well as prevent effective long-term economic planning. In commodity export dependent states, an influx of revenue during high price periods historically has led to rampant and irresponsible governmental

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<sup>66</sup> Ban, Cornel. "Brazil's Liberal Neo-developmentalism: New Paradigm or Edited Orthodoxy?" *Review of International Political Economy* 20.2, Dreaming with the BRICS? The Washington Consensus and the New Political Economy of Development (2013): 298-331 .

<sup>67</sup> Brazil's Reliance on Commodity Exports Threatens Its Medium- and Long-term Growth Prospects

spending and risk taking.<sup>68</sup> Over-reliance on commodity trade can also subvert political moderation and fuel radicalism as booms periods indicate seemingly unbound opportunities deterring political compromise and instigating attacks on the political and socioeconomic order.<sup>69</sup> If Brazil does not work on limiting its dependence on commodity exports by promoting its industrial and manufacturing sectors, it will undermine long-term economic stability. The latest economic downturn is largely related to falling commodity prices and slowing Chinese growth and reveals the risks of commodity export over-dependence.

Nations with export commodity based are vulnerable to foreign economic shocks and reliant upon foreign nations. Throughout the 19<sup>th</sup> century until 1930 the Brazilian economy was entirely based upon exporting coffee to the United States. The Wall Street crash of 1929 devastated the Brazilian economy and induced the Revolution of 1930 under Getúlio Vargas. Abiding by developmentalist and ISI ideology Brazilians were determined modernize their economy and reduce dependence on any single country or product. Brazil spent over half a century fostering industrialism and diminishing economic reliance on commodities. While Brazilians must take advantage of their natural resource wealth, they should not forget the dangers of commodity export dependence or

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<sup>68</sup> Weyland, Kurt. "The Rise of Latin America's Two Lefts: Insights from Rentier State Theory."

*Comparative Politics* 41.2 (2009): 145-64. Print. 151.

<sup>69</sup> The Rise of Latin America's Two Lefts: Insights from Rentier State Theory, 151

fail to continue economic modernization. Manufacturing and high-tech exports are vital to sustainable development and must be promoted.

Unfortunately, trade with China is almost entirely based upon commodity exports. As previously mentioned, Chinese trade has increased faster than any other nation in Brazil and China is now Brazil's number one trading partner. Chinese trade has been dominated by commodities, whose share of Brazilian exports to China has increased from 70 percent in 2001 to over 80 in 2006 to nearly 90 percent today.<sup>70</sup> Even the composition of Brazilian commodity exports to China is not diversified with iron ore and soy constituting two thirds of exported goods.<sup>71</sup> Technology products compose 10 percent of Brazilian exports to China but 34 percent of export to the rest of the world.<sup>72</sup> In 2008 the Brazilian government released a report that highlight 600 products with potential to export to China.<sup>73</sup> Brazil must work at diversifying trade with China to include manufactured goods or risk increasing its dependence on commodity exports.

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<sup>70</sup> China and Brazil: Economic Impacts of a Growing Relationship, 26

<sup>71</sup> China and Brazil: Economic Impacts of a Growing Relationship, 25

<sup>72</sup> China and Brazil: Economic Impacts of a Growing Relationship, 30

<sup>73</sup> Brazilian Government (2008), *Agenda China: Ações Positivas para as Relações Econômico-Comerciais*

*Sino-Brasileiras* (China Agenda: Positive Actions to Develop Sino-Brazilian Economic-commercial Relations), Brasilia: Governo Federal.

Moreover, China has emerged as Brazil's top domestic and international competitor for manufactured goods. The composition of Brazilian imports from China contrasts with exports to China. Manufactured and technology goods make up over 85 percent of Chinese imports. While the total value of Chinese imports has skyrocketed, high-tech goods have risen from 25 percent to 45 percent of Chinese imports between 1996 and 2009.<sup>74</sup> In the domestic market, China has emerged as the biggest challenger of manufactured goods.

The international market presents a similar picture. In 2009 an estimated 84 percent of Brazil's manufacturing exports were under threat of Chinese industry.<sup>75</sup> Brazilian manufacturing goods lost an estimated 5.3 percent and 5.9 percent of market share to Chinese goods in the United States and European Union, amounting to an estimated \$250 billion, between 1996 and 2009.<sup>76</sup> In the first decade of the twenty-first century, Chinese imports to Latin America have grown more than 700 percent while Brazilian exports have only grown 40 percent. During the financial crisis in 2009, Brazilian market share of Argentina imports in fell from 42 percent to 31.5 percent while

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<sup>74</sup> China and Brazil: Economic Impacts of a Growing Relationship, 27

<sup>75</sup> Gallagher, Kevin, and Roberto Porzecanski. *The Dragon in the Room: China and the Future of Latin American Industrialization*. Stanford, CA: Stanford UP, 2010. Print.

<sup>76</sup> China and Brazil: Economic Impacts of a Growing Relationship, 40

the Chinese share rose from 21.5 percent to 30 percent.<sup>77</sup> Brazilian industries lost ground to Chinese manufacturers in Africa as well, where the Chinese beat Brazilian products on a cost basis.<sup>78</sup> In Latin America and Africa, Brazil has taken a more local approach with higher amounts of technical training management transfer over the predatory “mass temporary migration” programs of China.<sup>79</sup> Nonetheless, Brazilian industry must improve its competitiveness if Brazil hopes to stem falling market share of manufactured goods to Chinese businesses.

Brazilians must improve their education system in order to modernize their economy and better compete on the world stage. Brazil remains at the bottom of list of nearly every education rankings and well below global averages. In the 2012 *Programme for International Student Assessment (PISA)* conducted by the OECD, Brazil’s mean score ranked last out of 28 participating countries.<sup>80</sup> Despite several educational reforms since then, in the 2012 PISA Brazil’s mean score had not significantly risen, ranking 58 out of 65 countries.<sup>81</sup> The annual *Human Capital Report* released by the World Economic Forum provides a “holistic, long-term overview on how well countries are leveraging

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<sup>77</sup> *Lula e Dilma*, 38

<sup>78</sup> Burges, Sean W. "Brazil as a Bridge between Old and New Powers?" *International Affairs (Royal*

*Institute of International Affairs 1944-)* 89.3, Negotiating the Rise of New Powers (2013): 583

<sup>79</sup> Brazil as a gap between new and old powers, 583

<sup>80</sup> OECD 2000 PISA Report

<sup>81</sup> OECD 2012 PISA Report

their human capital and establishing workforces that are prepared for the demands of competitive economies.”<sup>82</sup> In the 2013 *Human Capital Report*, the poor rating of Brazilian education pulled the country’s overall ranking down to 57, well behind China’s spot at 43.<sup>83</sup> In the Education Index of the report, Brazil ranked 88<sup>th</sup> in general education and 112<sup>th</sup> in the math and science education out of 122 total countries.<sup>84</sup> High-technology and medium-technology industries form pillars of developed economies and contribute significantly to sustainable economic growth. If Brazil hopes to compete with China in these sectors, it must improve its education system that continues to drag down its global competitiveness.

Brazil must contain its environmental degradation if it hopes to achieve sustainable economic growth. As the Brazilian economy grows, deforestation and pollution have become rising problems. As home to the Amazon Rainforest, Brazil contains some of the most important wilderness in the world. In the Cardoso-Lula era, deforestation in the Amazon reached new heights. In later years, Lula began a policy of limiting illegal deforestation that has helped slow the environmental destruction. Nonetheless, more action is need in order to save the Amazon and limit global warming. The PT has generally held a view that the government must concentrate on alleviating

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<sup>82</sup> The World Economic Forum Human Capital Index Report (2013)

<sup>83</sup> The World Economic Forum Human Capital Index Report (2013)

<sup>84</sup> The World Economic Forum Human Capital Index Report (2013)

poverty before conserving the environment. If environmental degradation continues at a rapid rate, they might have to change their stance.

While this paper began searching for the sources of recent Brazilian economic success it ended up largely concentrating on the many positive changes that have taken place towards long-term economic growth. While the Brazilian economy is currently struggling, it is far removed from the dire situation it faced when Cardoso took office. The Lula-Cardoso era may well be the most influential and significant period of modern Brazilian history during which Brazil transition from economic chaos to consistent and quality development. Although commodity prices and Chinese economic ascension primarily drove recent economic success, the policies implemented by Cardoso and Lula have significantly increased the prospects of prolonged economic growth. Overall, the country is much more prepared to tackle the many challenges that remain and that readiness can be largely attributed to Fernando Henrique Cardoso and Luiz Inácio Lula da Silva.

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