Structural changes in Brazil – advances and limits

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1. Introduction

The aim of this study is to investigate the occurrence and intensity of structural change in the Brazilian economy from 2004 to 2010 considering that two phenomena may be identified based on analysis of growth dynamics: (i) that there was a process of greater growth than the average of the previous twenty years (1983-2003), accompanied by greater social inclusion; and (ii) that the weight of domestic activity was the determining factor for definition of the growth rates observed.

In other words, the purpose of the study is to identify elements that clarify the nature of the demand structure in the period as well as the main factors leading to its change. In addition, the intention is to show the limits of this process, which are basically defined by the structural determinants that underwent only partial modification.

The point of departure of this analysis is the observation that in 2003, Brazilian macroeconomic conditions had improved, just as in other Latin American countries. The Brazilian economy presented: (i) good results in its public accounts (fall in the net public debt (NPD)/GDP ratio; reduction of dollarization of internal debt and decline in foreign debt; achievement of considerable primary surpluses); (ii) inflation controlled by a policy of inflation targets together with the policy of a floating exchange rate; and (iii) progressively favorable results of the trade balance as of 2004, with an emphasis on expressive growth in international reserves.

The hypothesis is that the growth characteristics of the Brazilian economy were modified, when held in contrast to the period from 1950 to 2003, and this arose from the combination of three elements. The first of them is the international scenario, particularly favorable in the beginning years of this period; the second is the role of social policies[4], with Welfare and Social

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4 These policies were possible and are the result of the Constitution of 1988.

Security Public Transfers (Transferências de Assistência e Previdência Social - TAPS)[5] standing out, which affected income distribution and the dynamic of the internal consumer goods market; and the third is the central role of public investment, especially in infrastructure. Therefore, the proposition is that growth was initially driven by the foreign sector and after 2006 by the internal dynamic of the economy. That stated we now move on to deal with the themes we have just mentioned.

The article is organized in two sections, in addition to this introduction. In the first of them, basic data on the growth of the Brazilian economy in the period from 2004 to 2011 are presented. In the second section, we discuss what the main aspects that leveraged this growth in the period under consideration may be, separating the foreign scenario and impetus and the domestic policies and impulses. Finally, we draw some conclusions.

2. *Growth in Brazil in the period 2004-2011: some basic data*

Average real growth of the economy from 2004 to 2011 was 4.3% a year (Table 1), which is double the average observed in the two immediately prior decades.

Table 1
Annual growth rates of the GDP volume indices (%) and its components

Year	Agriculture	Industry	Service	GDP	Family consumption	Government consumption	Investment	Exports	Imports
2002	6.58	2.08	3.21	2.66	1.93	6.77	-5.23	7.42	-11.82
2003	5.81	1.28	0.76	1.15	-0.78	-4.70	-4.59	10.40	-1.62
2004	2.32	7.89	5.00	5.71	3.82	4.75	9.12	15.29	13.30
2005	0.30	2.08	3.68	3.16	4.47	6.81	3.63	9.33	8.47
2006	4.80	2.21	4.24	3.96	5.20	4.61	9.77	5.04	18.45
2007	4.84	5.27	6.14	6.09	6.07	7.46	13.85	6.20	19.88
2008	6.32	4.07	4.93	5.17	5.67	4.68	13.57	0.55	15.36
2009	-3.11	-5.60	2.12	-0.33	4.44	4.76	-6.72	-9.12	-7.60
2010	6.33	10.43	5.49	7.53	6.94	7.16	21.33	11.52	35.84
2011	3.90	1.58	2.73	2.73	4.09	0.48	4.72	4.49	9.75
2004/2011*	3.20	3.40	4.30	4.30	5.10	5.10	8.40	5.20	13.5

Source: IBGE – Brazilian Institute of Geography and Statistics, prepared by DIMAC/ Institute of Research and Applied Economics (IPEA)

* Annual average

5 This abbreviation will be used extensively in this study; it is used by Dos Santos (2010).

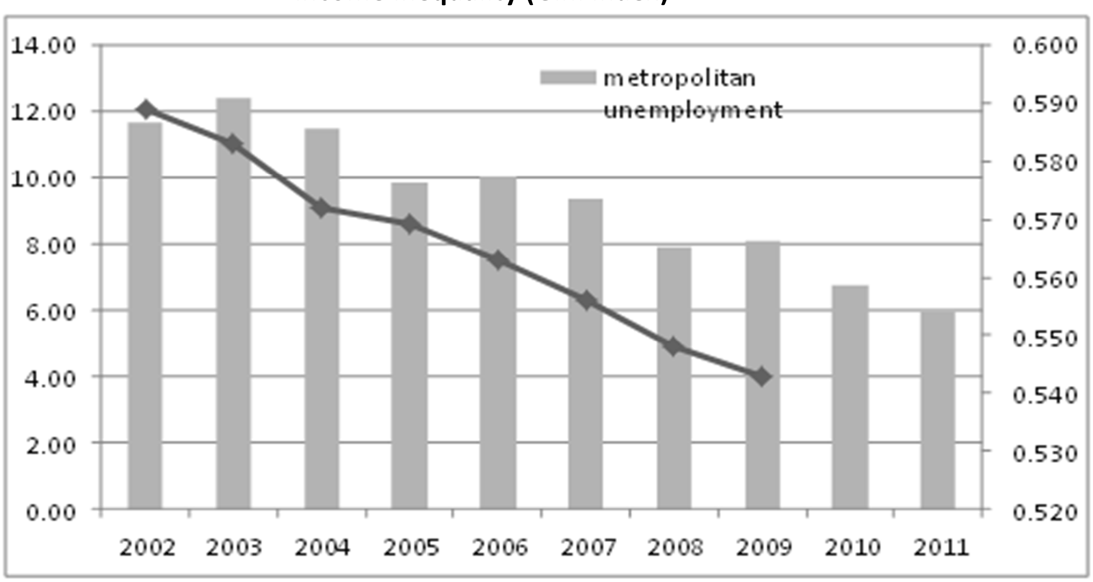
It should be noted that this average was low in the international context, especially if compared to that of other developing countries. Some of them grew at the same rate as Brazil, such as Chile, Russia and Turkey, and others at significantly greater rates, such as China (10.0% p.a.), India (8.4% p.a.) and Argentina (7.5% p.a.).

Specifically in the case of Brazil, the important point is that growth occurred together with improvement in income distribution, and express reduction of poverty. In the period analyzed, Brazilian per capita income grew more than 25% in real terms (with annual demographic growth of 1.1%), metropolitan unemployment fell more than 50% (from 12.3% in 2003 to 6.0% in 2011) and absolute poverty to nearly half that observed in 2002 (Osorio, 2011).

In fact, the number of people that lived with income below RS 70.00 a month decreased from 17 million in 2003 to around 9 million in 2009. On the other hand, it is fitting to mention that personal income inequality fell each year, more than 10% in all, from 2003 to 2009.

In other words, in the years under study, the Brazilian economy grew more than in the 20 previous years, above all, exhibiting a dynamic of improvement in income distribution, which had not been observed at this same dimension in the past. Figures 1 and 2 show these data.

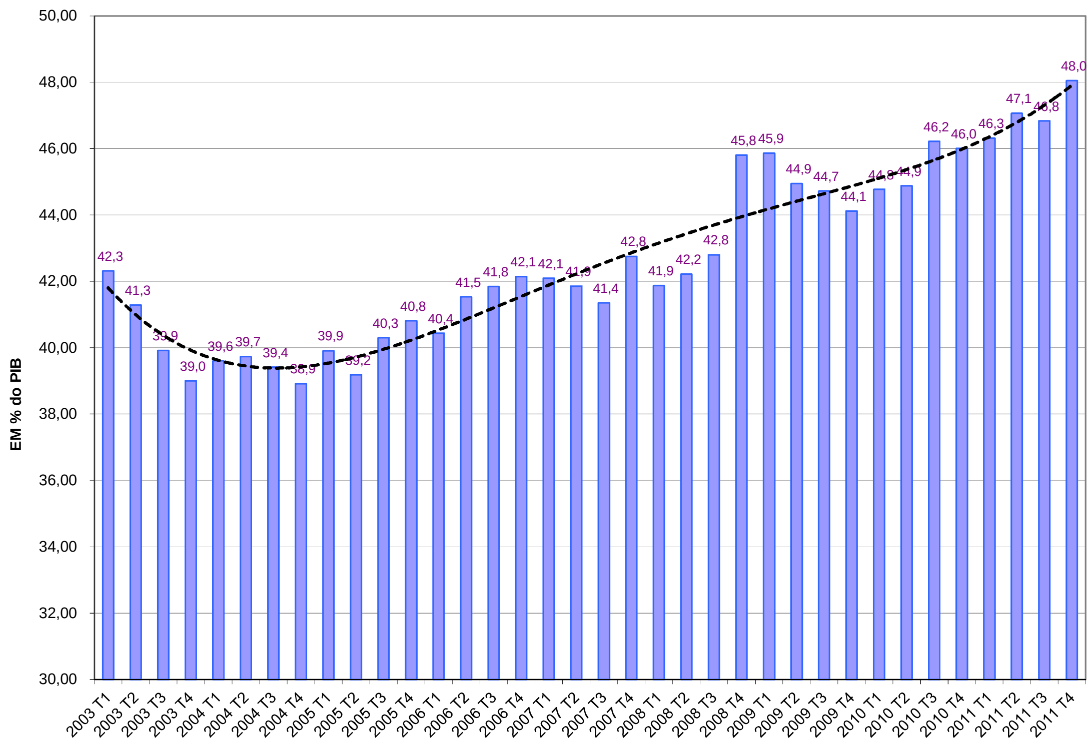
Figure 1
Metropolitan unemployment (% of economically active population) and personal income inequality (Gini index)



Source: IPEADATA and IBGE – Brazilian Institute of Geography and Statistics, prepared by DIMAC/ Institute of Research and Applied Economics (IPEA)

It may thus be said that after 2004 the economy enters in a new phase of growth, with changes in economic structure. The data above show change in the sphere of income distribution structure, with an increase in the weight of wages in national income (growth in wage share). These elements may be observed in Figure 2.

Figure 2- Wage share in the GDP (2003-2011)



Source: DIMAC/IPEA

Given these aggregate numbers, the task is to analyze what elements may have spurred these changes.

3. Mechanisms of growth

It is possible to consider the Multiyear Plan (Plano Plurianual - PPA) 2004-2007 as the document in which willingness of the government appears for "initiating a long term development strategy with social inclusion and income distribution". In this document, the intention of driving the economy by the "market of mass consumption" and by modernizing investment, which would mean an increase in productivity, seems quite clear (Brasil, 2003).

One of the core points of the strategy was to expand the income and consumption of the poorest members of society at a pace greater than the growth in income and consumption of the richest members. Public policies filled a key role in this strategy, creating conditions for a real increase in the minimum wage, a broader scope for unemployment insurance, expanding offerings of scholarships (in various modalities), promotion of family agriculture, wide-ranging attention to the elderly, micro-credit, economical housing programs, effective universalization of essential public services such as social security (pensions and attention to health) and education (Brasil, 2003, pp.13-19).

While considering the role of mass consumption in the definition of the profile for growth, the “new model” manifested the key role of Public Investment for the new dynamic to proceed. One of the priorities was the expansion of infrastructure, even in times of fiscal restriction (Brasil, 2003, p.11). The proposition was that inversions performed by the State would promote basic infrastructure and would stimulate investment decisions of the private sector. The underlying concept is that consumption alone (in the case of increase) does not determine structural baselines for economic dynamics and that investment is the fundamental engine for growth.

In light of the above, it may be concluded that the strategy adopted by the country was not simply that of “adaptation to the international state of affairs” or a strategy of passive insertion. In fact, the Brazilian government took advantage of a particularly favorable foreign scenario to make a discretionary intervention, seeking to influence the dynamic of growth through structural change in the profile of demand.

It may thus be concluded that growth was strongly influenced by the international scenario as a driver of growth. Nevertheless, the State played a decisive role – through policies that affected income distribution, through promotion of Public Investment and State-owned Companies, and through Credit Policies.

Based on these elements, we now move toward analysis of the factors which, according to our argument, acted as “mechanisms for growth”.

Nature of the favorable foreign scenario

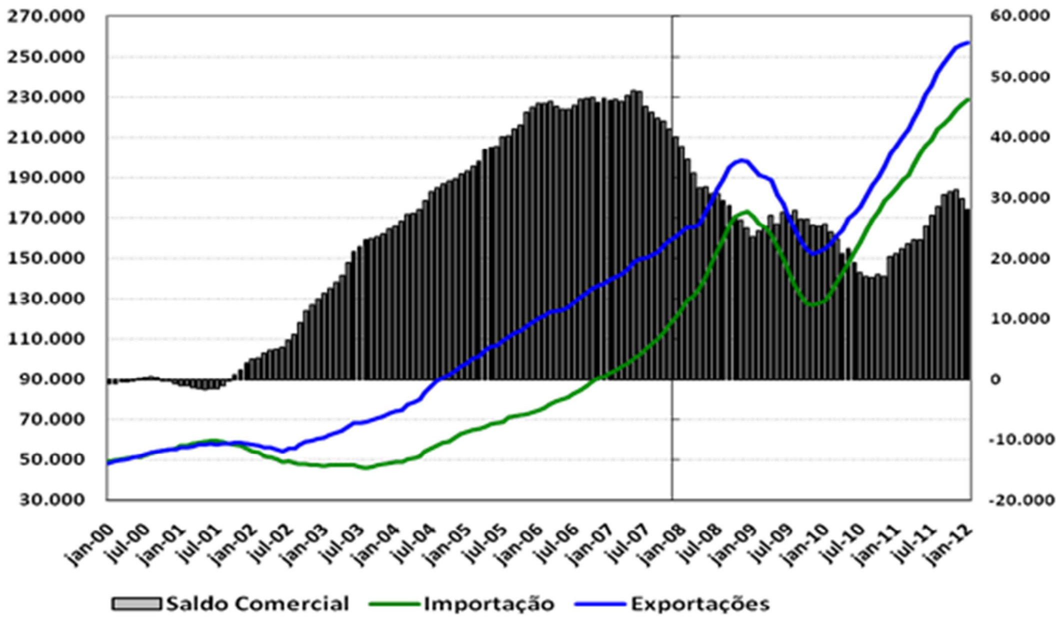
As mentioned, accelerated growth of the Brazilian economy as of 2003 was significantly driven by the foreign sector. Brazil and other developing countries benefitted from international commodity price increases and from the pace of growth of world trade. This improvement led to rapid growth of Brazilian exports and the strong increase in gross fixed capital formation in the production sectors of raw materials and in those other sectors integrated with them. This was a process that impacted countries in Latin America, the Middle East, and sub-Saharan Africa.

Without intending to minimize the importance of the policies for encouraging exports adopted by the Brazilian government since 2003, it is fitting to highlight that the favorable international scenario played a decisive role in the growth of trade flow (Figure 3). Consequently, the increase in exports from 2004 to 2010 was related to primary products or to manufactured products linked to them. There was not even an increase in exports of "goods of mass consumption", which contradicts the conception of the "mass consumption" model foreseen by the PPA. In other words, a rapid increase in the trade balance was observed, but with a worsening of the trade profile (Figure 4).

What occurred was that international conditions led to the rapid response of basic products to foreign stimuli (especially agribusiness); nevertheless, there was weak performance from industry, giving room to a discussion of the possible existence of a "deindustrialization" process. Delay in adoption of a more forceful industrial policy and the continuous increase in value of the Brazilian currency in the years under study had a negative effect on the progress of the most complex branches of industry, in addition to the aggressive activity of China in occupying manufactured goods markets.

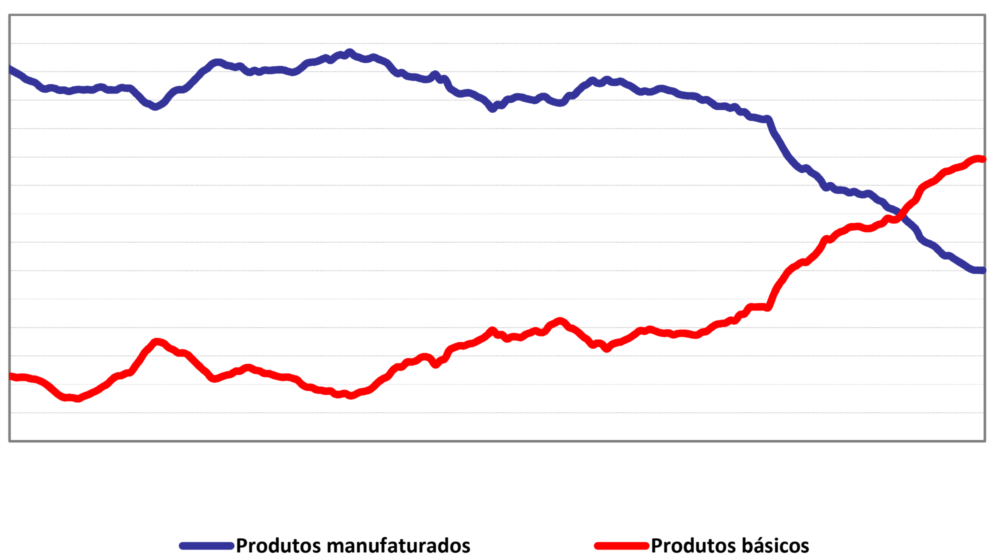
That is to say, the process of growth occurred along with a worsening of the industrial profile of the economy.

Figure 3
Trade Balance (US$ million accumulated in 12 months)



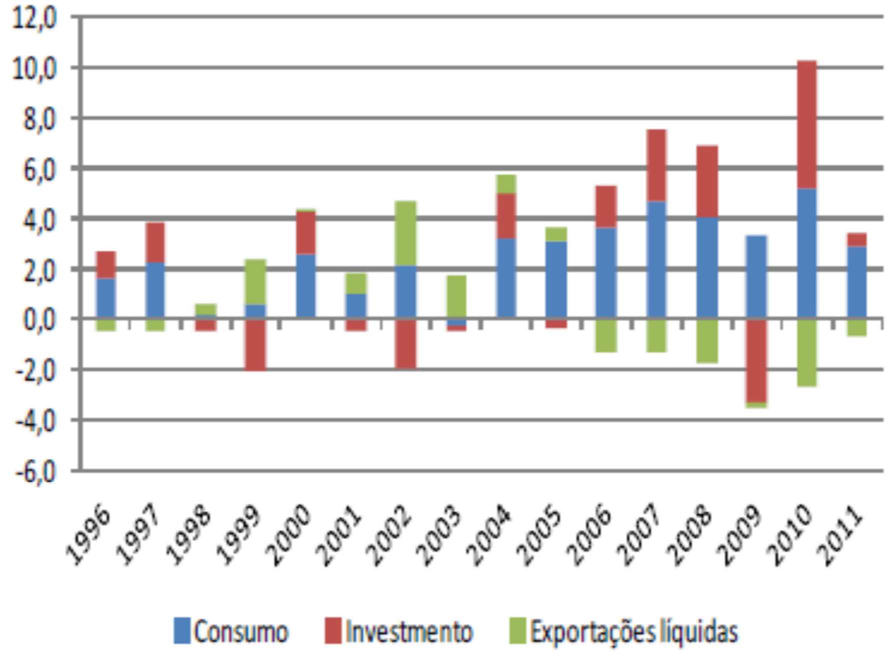
Trade Balance Imports Exports
Source: Prepared from data from the Brazilian Central Bank

Figure 4
Basic and manufactured products – share in total exports (in %)



Manufactured products Basic products
Source: Prepared from data from the Brazilian Central Bank

Figure 5
Contribution of the components of demand to product growth rate: Consumption, Investment and Net Exports



Source: Brazilian Central Bank and the IBGE, prepared by DIMAC/IPEA

Even so, the initial stimulus to growth provided by external conditions promoted expanded investment of resident companies, increasing income and employment. This affected the demand profile, provoking an acceleration effect for investment, induced by this new demand.

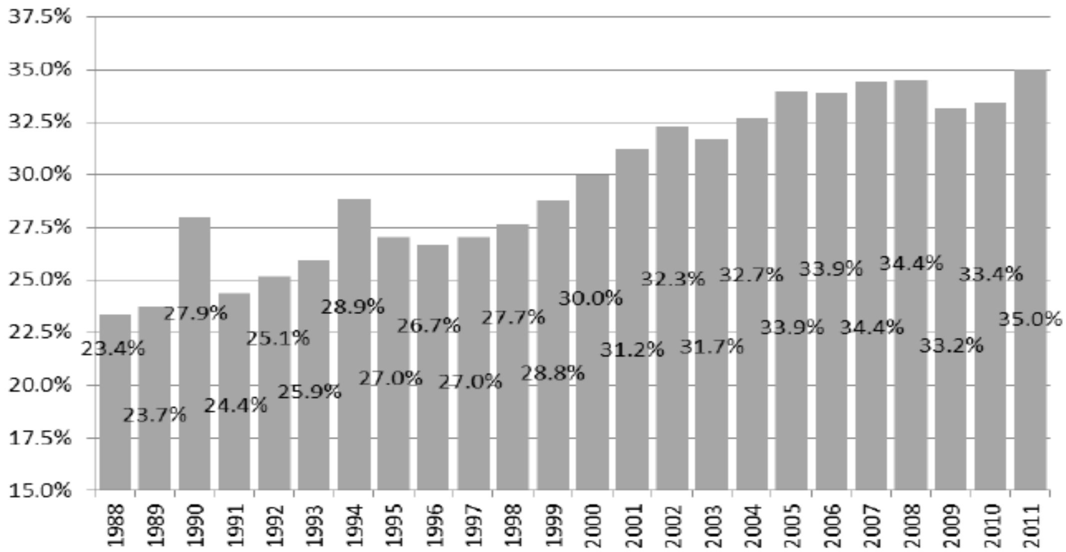
In this context, the foreign sector was fundamental for the more robust growth that began in 2003. However, it should be noted that the Brazilian economy came to be driven by the domestic market, at least as of 2006 (Figure 5). The elements that were crucial in this change, especially for greater social inclusion, are presented below.

Public Policies and changes in the income distribution structure

The changes observed in the income distribution structure had an effect on the profile and speed of growth, as commented on above. They were made possible by the coordination of the following aspects: (i) the mechanisms of Social Policies foreseen in the Constitution of 1988 and which define the Welfare and Social Security Public Transfers (TAPS); (ii) growth in the Minimum Wage; (iii) growth of Credit to Families.

The year 2004 is characterized as the beginning of the growth process in the domestic market due to the initial impetus from international trade, as mentioned above. However, this stimulus gave way to an endogenous growth cycle of the Tax Load[6] (Figure 5), which was related to the economic growth process[7].

Figure 5 – Evolution of the Tax Load as % of the GDP



Source: Institute of Research and Applied Economics (IPEA)

Be that as it may, this movement allowed the growth of the Welfare and Social Security Public Transfers (Table 1), defined in the Constitution of 1988, and, at the same time, a significant fiscal adjustment, as already mentioned above. In fact, from Figure 6, a slight trend to a rise in the TAPS is observed in the past decade in the direction of a stable level of 15% of the GDP.

[6] Increases of the tax load related to the pace of growth itself and not to the creation of new taxes or increases in the rates of already existing taxes. Details of this discussion may be found in Dos Santos (2012).

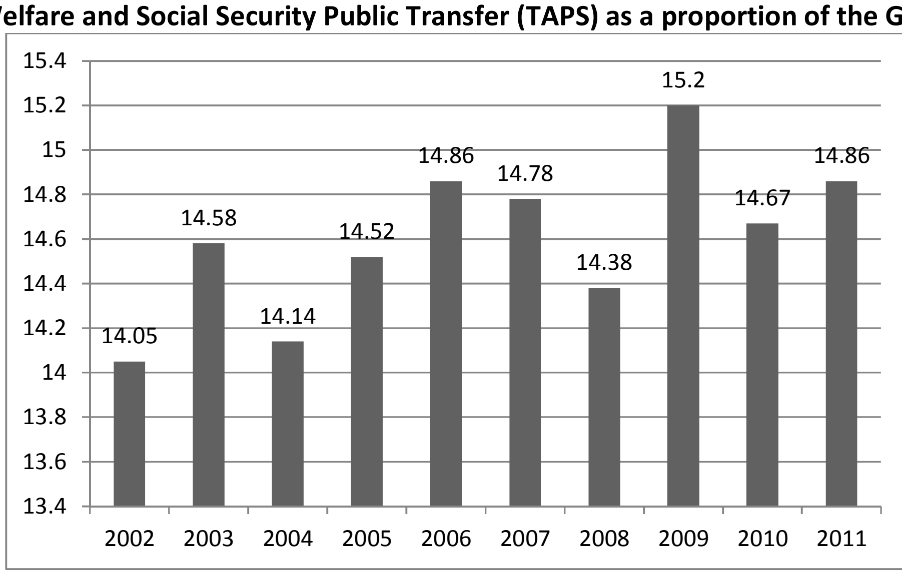
[7] Detailing of this discussion was developed by the Public Finance Office of the IPEA

Table 1
Welfare and Social Security Public Transfers (TAPS)

TAPS	Definitions
Federal Public Servants	Retirement and pension payments to Federal Public Servants
RGPS	General Social Security System (Regime Geral de Previdência Social)
FAT	Worker Support Fund (Fundo de Amparo ao Trabalhador): This fund was instituted by Law 7.998/1990. It is linked to the Ministry of Labor and Employment (Ministério do Trabalho e Emprego – MTE) and it is directed to upkeep of the Unemployment Insurance program and the salary bonus payment. Part of its resources are also responsible for financing of Economic Development Programs under the responsibility of the National Economic and Social Development Bank (Banco Nacional de Desenvolvimento Econômico e Social - BNDES).
LOAS	Fundamental Welfare Law (Lei Orgânica de Assistência): these benefits were regulated by Law 8.742/1993. This law defined that the organization of actions in the area of Social Welfare are to occur under the form of a decentralized and participative system, called the Sole Social Welfare System (Sistema Único de Assistência Social - SUAS).
FGTS	Severance Indemnity Fund (Fundo de Garantia por Tempo de Serviço)
RMV	Lifetime Monthly Income – Family Allowance Program (Bolsa Família)
States and Municipalities	Transfers made by government lower than the Federal level directed for the most part to state and municipal public servants and their heirs
IPSFL	Public Transfers to Non-Profit Private Institutions (Transferências Públicas às Instituições Privadas Sem Fins Lucrativos)
Other	

Source: Prepared by the authors

Figure 6
Welfare and Social Security Public Transfer (TAPS) as a proportion of the GDP

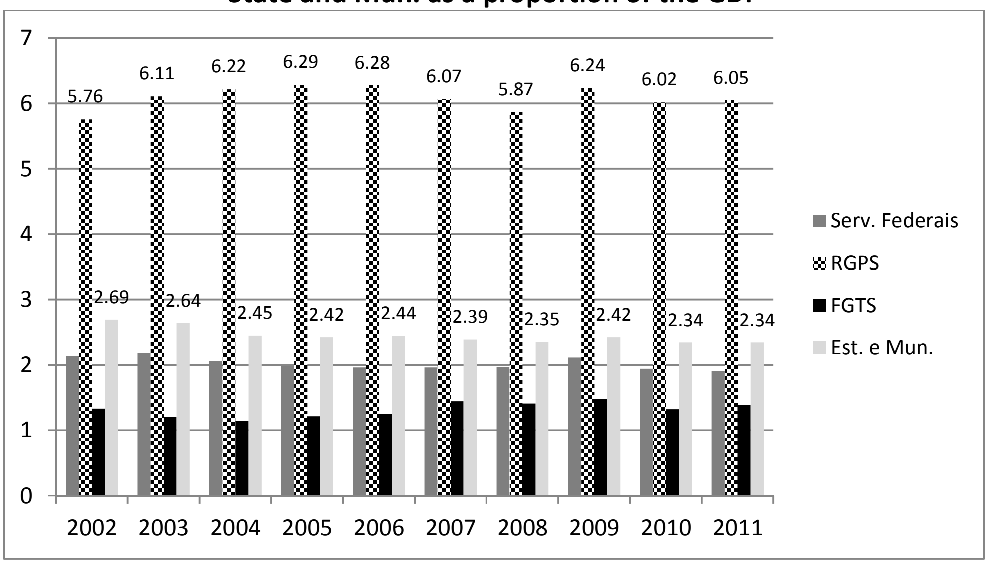


Source: Institute of Research and Applied Economics (IPEA)

These data give a dimension of the importance of the TAPS in directing resources to the poorest members of society, and their weight in the configuration of internal demand. It may be observed that the growth in the level of the TAPS in regard to the GDP (even if not expressive) played an important role in improving income distribution. Moreover, these resources directed to the poorest members are a source of expenditures on consumer goods through the strong propensity of this group toward consumption.

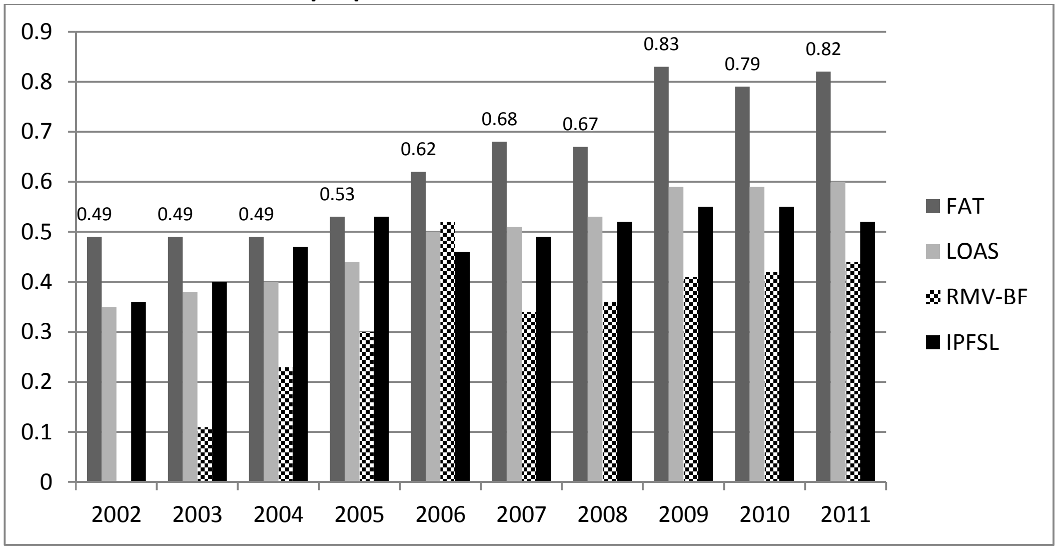
Disclosure of the TAPS data better clarifies what was happening, making it possible to understand the role of the increases of the minimum wage in the process under analysis. In Tables 7 and 8 are the main components of these Transfers and, in the first Table, those components that receive the greatest volumes of resources are presented.

Table 7
Welfare and Social Security Public Transfers (TAPS): Federal Public Serv., RGPS, FGTS, State and Mun. as a proportion of the GDP



Source: Institute of Research and Applied Economics (IPEA)

Table 8
Welfare and Social Security Transfers (TAPS): FAT, LOAS, RMV-BF, IPFSL as a proportion of the GDP



Source: Institute of Research and Applied Economics (IPEA)

It may be perceived that the General Social Security System (Regime Geral de Previdência Social - RGPS) is the largest Transfer, corresponding, on average, to 6% of the GDP, serving 25 million people and representing nearly 40% of the total TAPs.

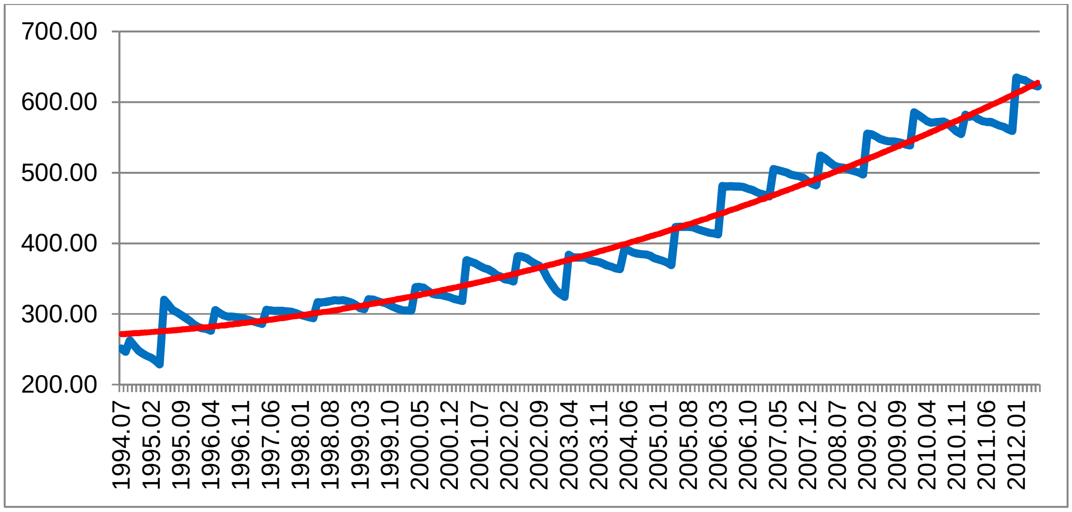
In the case of the RGPS, the portion directly associated with the minimum wage rose from 59% to 61% in the past decade. Thus, when there is an increase in the minimum salary, the transfers of the RGPS increase, even though in a lesser proportion. Therefore, the growth of the minimum wage verified in this period fulfilled an important role in the recent dynamic upon making maintenance of the levels of expenditures on benefits of the RGPS as a percentage of the GDP possible.

In fact, the role of the minimum salary has a greater impact on the transfers related to LOAS/RMV and bonuses and unemployment insurance. In the case of the LOAS/RMV, nearly all (99%) of the benefits correspond to the value of 1 SM (minimum salary). Furthermore, in the case of these programs, the number of beneficiaries grew expressively[8] such that these transfers showed a strong trend of increase in the past

[8] Proportionally grew much more than the beneficiaries of the RGPS

decade, nearing 1.5% of the GDP. However, there was improvement in the distributional profile of the TAPS from 2004 to 2010.

Figure 9 – Real Minimum Wage



Source: IBGE – Brazilian Institute of Geography and Statistics.

Another effect of the real increase in the minimum wage was the growth in tax revenues connected with the payroll tax and social security collection[9].

In short, it may be seen that the increase of public expenditures on social programs and public transfers tied to the minimum wage played a key role in reduction of income inequality in the past decade.

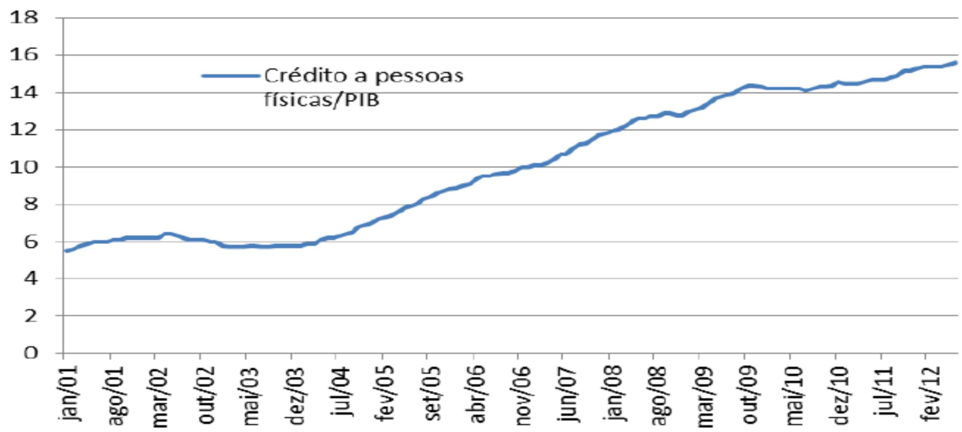
Furthermore, the increase in public expenditures reinforced the dynamic of the job market itself, with a continual increase in payroll being observed, as well as the aforementioned decline in unemployment. This dynamic, for its part, had an impact on consumption levels of Brazilian families, which grew around 5% a year since 2004.

Note that a third factor is hereby added with an effect on consumption, also associated with direct action from the government, i.e., the growth in credit. In this case, it should be highlighted that government banking institutions played an important role in this movement. Moreover, the institution of "consigned credit" or payroll loans is added to this since the risk of this credit modality is considerably low.

[9] This issue was addressed in Dos Santos (2012)

Thus, there is expansion of the credit volume to individuals, in line with the directives of the PPA.

Figure 10 – Credit to individuals - % of the GDP



Source: Brazilian Central Bank

Table 3
Annual growth rates of family consumption and some of its determining factors

Year	Family consumption	Loans to individuals	Minimum wage	TAPS
2002	1.93	6.08	2.55	8.04
2003	-0.78	-8.09	0.70	2.61
2004	3.82	18.78	3.72	4.31
2005	4.47	33.24	6.96	6.39
2006	5.20	24.44	14.06	7.61
2007	6.07	22.20	6.04	6.22
2008	5.67	22.47	6.04	6.22
2009	4.44	12.64	7.22	6.53
2010	6.94	10.42	5.31	6.34
2011	4.09	9.98	0.09	3.74

Source: Prepared by the authors

In other words, the growth in income of the poorest members of society, together with expansion of credit and the increase in employment, generated the increase in demand for processed foods, clothing, cleaning products, pharmaceutical products, appliances and electronics, furniture, building materials, general services, etc.

This process also generates an increase in private investment to respond to the increase in demand. Thus, one may observe some the factors that have defined the process of the growing participation of internal demand on the growth rate of the Brazilian economy.

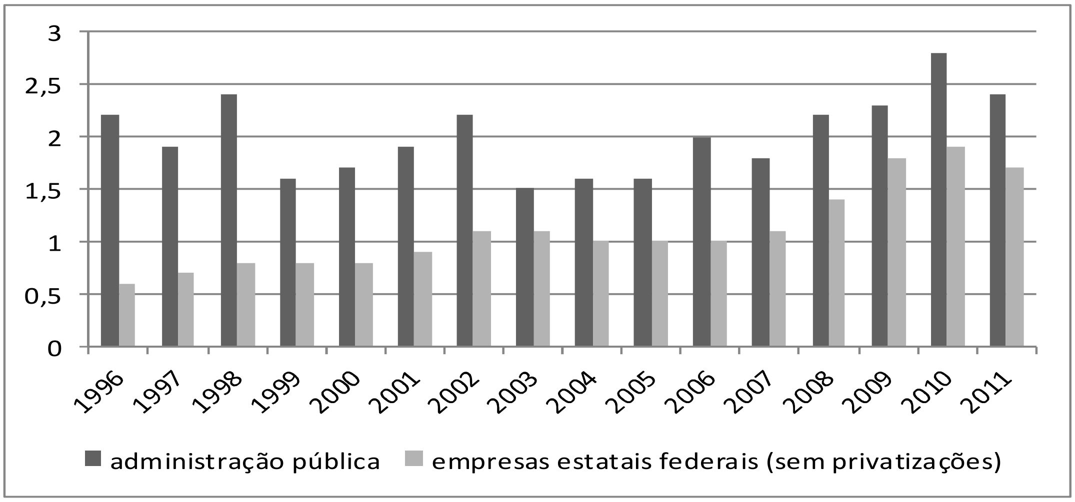
Even so, what we wish to highlight is that the analysis of the growth dynamic is not complete. In accordance with what we have already indicated at the beginning of this study, the “new model” is not centered only on the movement of consumption and on the private investment induced by it. Another key element is autonomous investment, especially Public Investment.

The role of Public Investment

It can be observed through analysis of the components of Aggregate Income that, in the period under consideration, the growth rate of total Investments was greater than growth of consumption. This increase of the investment rate was strongly driven by the acceleration of investments in infrastructure sponsored by the Public Sector, but also by private investment, induced by growing consumer demand.

The main point is that growth from improvement of the income distribution observed in the Brazilian economy is directly related to the role of the State as “promoter and coparticipant in the process of growth” (Brasil, 2003, p.108). This is a characteristic of the historic Brazilian economic dynamic, which has intensified, in relative terms, since 2003 (Almeida Filho, 2013). In addition to intensification, what this article intends to highlight is that there is structural change in this participation of the State, which has increased the volume of income transfers in terms relative to their historic average, through the mechanisms already indicated. As of 2006, the inducement of investments and public transfers gains intensity with the increase of investments related to the Growth Acceleration Program (Programa de Aceleração do Crescimento - PAC), in this case reassuming the historic role of the State in taking responsibility for the economic infrastructure.

Figure 11
Gross Fixed Capital Formation of public administrations and investment expenses of federal state-owned companies

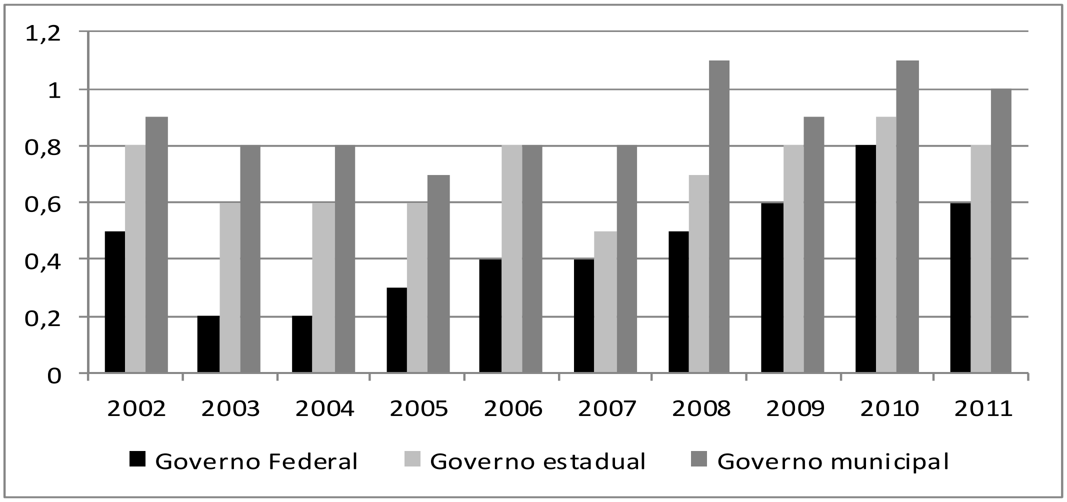


Source: Institute of Research and Applied Economics (IPEA)

In this new growth dynamic, the public sector performs three crucial functions in acceleration of the economic investment rate (IPEA, 2012): (i) through increase of the Direct Investment rate (especially investment in infrastructure); (ii) through financing to private investment through the route of BNDES credits (having an influence on the profile of investments and on their location); (iii) through its action in formation of consortiums for large investment projects[10].

[10] For this discussion see ORAIR (2012)

Figure 12
Gross Fixed Capital Formation of public administrations (in % of GDP): Federal, state and municipal government



Source: Institute of Research and Applied Economics (IPEA)

Specifically in regard to this last activity, it is interesting to observe some data[11]:

- Gross Fixed Capital Formation of the Government achieved its greatest value in % in the year 2010, with consideration of data from two decades;

- "Expenditures on Investment" of the federal state-owned companies (especially Petrobras) in this same year achieved its greatest value in % of the GDP;

- Total outlays of the BNDES were also at a record level in 2010.

It is important to highlight that Public Investment plays a key role in the new model of growth that has been set up since 2003, and the economic recovery of the country after the deceleration caused by the Subprime crisis in 2009 was strongly conditioned by the activity of the State in promoting investments and in expansion of credit for investment and for consumption by means of state-owned banks.

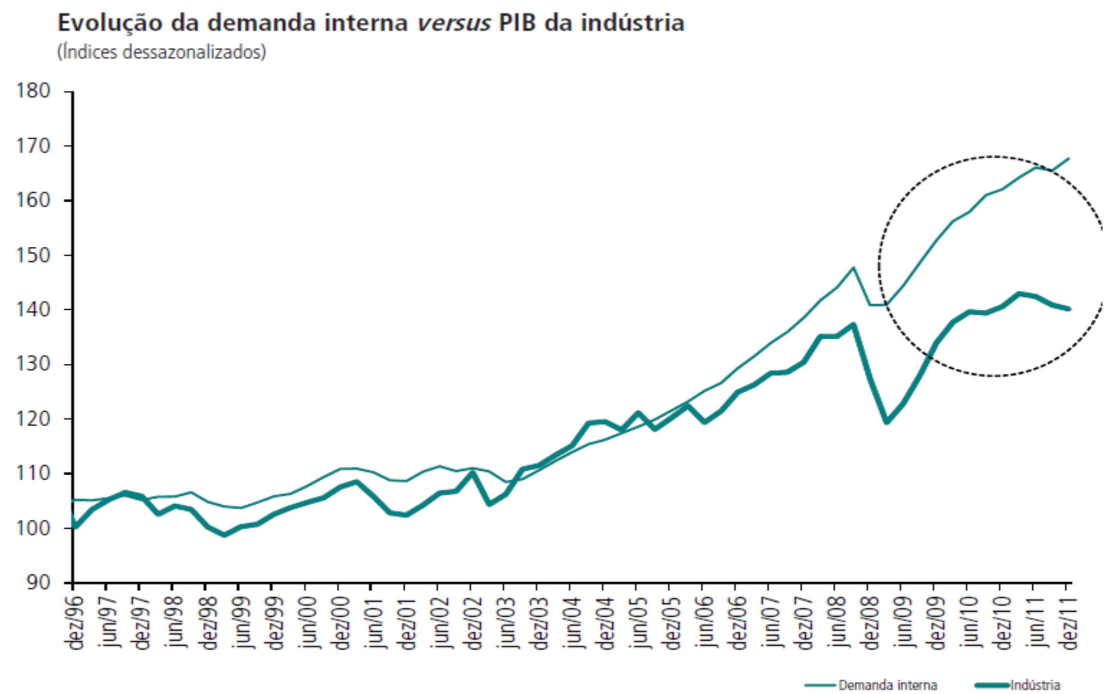
Nevertheless, in 2011, there was a strong decline in Public Investment, a factor which, according to our argument, strongly affected growth from that time on[12]. The most

[11] For these data see IPEA (2011)

[12] To introduce this discussion see IPEA (2011)

significant aspect for analysis of the growth dynamic is that this movement occurred together with a situation of global economic deceleration and at a time in which the problems of domestic industry sharpened. In this case, the potentializing factor, shown before, functioned in reverse, with the decline in public investment filling the role of lowering the results and expectations of the private sector.

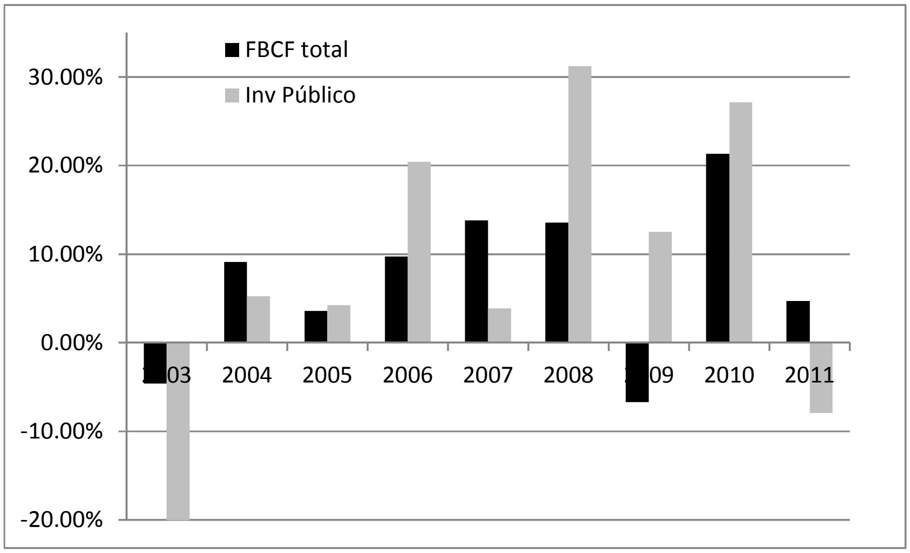
Figure 13



Evolution of Internal Demand versus GDP of industry (deseasolized indices) Internal demand Industry
Source: Current Conditions Analysis Group (GAP)- IPEA

Nevertheless, public transfers served as a cushion, and an important fact to consider is that in 2011 the decline in growth was not accompanied by worse performance of the labor market.

Figure 14
Annual growth rates of Gross Fixed Capital Formation of the economy and public investment.



Source: IBGE – Brazilian Institute of Geography and Statistics, prepared by DIMAC/ Institute of Research and Applied Economics (IPEA)

Even so, deceleration of public investments aggravates the situation of industry, and reduced space for domestic industry is observed, a result of the profile of international insertion that was being advanced by the country.

Even though this discussion is not being detailed here, it is noteworthy that this international relationship followed the "path of least resistance", in which the domestic economy increased its international involvement by means of commodities and of manufactured products linked to them. Delay in implementation of a more explicit industrial policy and of adjustment of the exchange rate to the minimum conditions necessary to ensure international competitiveness were significant obstacles for Brazilian industry. In other words, as already mentioned, the growth observed from 2004 to 2010 occurred, in spite of worsening of the profile and international insertion of industry.

In this respect, it should be stressed that advancement of growth driven by internal demand greatly depends on public expenditures and, thus, macroeconomic policy is a core element for continuity of the movement that had been observed, especially in the situation of weak international economic performance as of 2009.

In the interval we are studying, macroeconomic policy strongly centered on the action of combating inflation through a policy of Inflation Targets together with the adoption of the model of the floating exchange rate and strong opening of financial markets. The issue of existing inflationary pressure was continually considered as being the result of pressures from demand[13] and, in this respect, the act of maintaining high interest rates and a highly valued exchange rate were seen as important anti-inflationary measures.

Nevertheless, both these movements were not going in the direction of advancement in the "model" that was being carried out. On the one hand, the interest rates at high levels and the highly valued exchange rate negatively affected industry. On the other hand, the interest rate level and the need for sterilizing interventions[14] on the exchange rate in a situation of excessive entry of capital continually affected public accounts in a negative manner.

After the Subprime crisis, more flexible application of the policy of combating inflation in favor of other mechanisms is observed. In fact, the possibility for reduction of the basic interest rate arose. Nevertheless, when the strongest action for reduction of the rate occurred, the option was to adopt a "trade-off": the interest rate was reduced, but public expenditures were also reduced. The thesis of inflation from demand continued to be central, and reduction of these expenditures occurred in an expressive

[13] The analysis of Macroeconomic Policy is not the focus of this study, but it is important to mention the complexity of Brazilian inflation and the fact that it is strongly affected by cost-pushes. In the interval studied, the existence of cost pushes of commodities stands out and they were quickly passed on to domestic prices. In this respect, the role of the commodities futures markets in destabilizing these prices should be observed.

[14] In a situation of strong entry of capital, the movement of strong valuing of the currency is reversed through intervention of the government as, for example, in buying foreign currency. This activity happens to generate fiscal costs since the foreign currency bought is applied on the international market, generating earnings according to the international interest rate of the application. In a parallel manner, the resources for the purchase of foreign currency come from emission of internal debt, which pays substantially greater interest than those earnings from the application of the foreign currency on the foreign market.

manner in 2011, affecting Public Investments, which may be clearly observed in Figures 11 and 12.

Clearly, it is necessary to consider the effect of the worsening foreign environment on contamination of the domestic environment of investments. Nevertheless, the point made here is that deceleration of Public Investments was crucial for the decline in growth of the country in 2011 since this was a central mechanism for the growth observed in the immediately prior period.

In fact, four aspects came together at the end of 2010 and throughout 2011: (i) the already mentioned decline in public investments, (ii) maintenance of the minimum wage, which remained constant in real terms, (iii) important restrictions to credit were put into practice, and (iv) both fiscal and monetary policies were tightened.

4. Final considerations

In this study, we showed the elements that had an effect on the dynamic of economic growth in Brazil from 2004 to 2010. The aim was to show that a change was occurring in the Brazilian model of growth: the growth rate came to depend more on the domestic sector, and a movement of income distribution with a strong reduction in absolute poverty in the country was observed.

In this regard, especially after 2006, growth was no longer centered on the foreign sector because internal components had a fundamental weight, with special emphasis on the role of the State: (i) through social policies and decisions in regard to the dynamic of the minimum wage; (ii) through credit from the state-owned banks; (iii) through Public Investment (directly and through state-owned companies) and actions in support of private investment (BNDES).

On the other hand, it is necessary to consider that the growth model had not been carried to completion. In fact, a process of loss in competitiveness of the industrial sector and worsening of the profile of the trade balance is observed. These barriers were related to the policy of a highly valued exchange rate but, in fact, the problems are deeper because they are related to a new world trade and production configuration, requiring an explicit industrial policy which acts on the theme of competitiveness, involving a strategy of insertion in new global value chains. This was a core problem of the growth strategy adopted by the country; moreover, added to this, is the fact that changes were not made in the structure of domestic financing.

The point that stands out is that return to a growth rate at levels that ensure continuity of more vigorous and stable growth require the recovery of the industrial sector, with improvement in productivity.

Considering the improvement of the monetary and fiscal stimuli in 2012, and also taking into account the stimuli of the Brazilian Government for inducing the growth of private investment, it is not easy to explain the absence of signs of recovery of investments up to the third quarter of that year. In accordance with the interpretation constructed throughout this study, we understand that the role of public investments is once more central to recovery. Stimulus to the private sector without stronger activity of public investments is not enough. The point we wish to make is that recovery requires the growth of public investment, integrated with industrial and social policy.

We consider that there is fiscal space for this since the country has an important primary surplus and the Net Debt of the public sector continues to decline. In this respect, the focus of the macro-economy toward achieving more vigorous growth should move in the direction of giving priority to this action as central to the interests of the country.

The question of lack of coordination of industry is a more serious situation since the process is of a historical structural nature as there are sectors of the industrial matrix which were extinguished. Returning to higher growth requires an explicit project of international and domestic insertion.

Furthermore, another key fact in regard to the limits of the model of growth is the consideration that it does not explicitly focus on reduction of income differences among Brazilians. Even though there was growth with an increase of income distribution, and this is something new in the context of Brazilian development, the economy continues to be one of the most unequal in the world.

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