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Brazil and Its Turning Point, the Possible Impacts of the Ideology on Private Investment Behavior

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Abstract

This paper analyzes the loss of dynamics in the Brazilian economy from 2015/2016 onwards, which has resulted in a worsening of social conditions in Brazil and seeks to answer what caused this loss of pace of economic growth. The dominant ideology that started to rule the Brazilian economy in 2016 is strictly related to the logic of reducing the public sector participation in the economy, and the widespread belief among its supporters is that this would lead to an increase in the private investment and, consequently, to boost the economic growth. Nevertheless, we did not observe this: despite the implementations of the neoliberal logic, the investment decreased, the GDP levelled off around only 1% per year (from 2017 to 2019), and the unemployment rate surged in parallel to the worsening of social conditions. Here we try to explain what has been happening in the Brazilian economy, supported by the institutional economy. It is essential to understand this due to the importance of the Brazilian economy in the global and regional context. What took place in Brazil could occur in other countries. Therefore, understanding the hindrances to economic growth, even considering that the elites had implemented an ideology that they believe is crucial to provide sustainable growth, is pivotal because the assumptions of the ideology ex-ante its implementations did not produce the results that were expected.

Keywords

Brazilian Economy, Economic Growth, GDP, Institutional Economics, Neoliberalism, Productive Investment

1. Introduction

This paper analyzes the loss of dynamics in the Brazilian economy from 2015/2016 onwards, which has resulted in a worsening of social conditions in Brazil and seeks to answer what caused this loss of pace of economic growth.

From 2000 to 2014, we observe that the Brazilian economy showed a stable growth trend in its GDP. During this period, the Brazilian GDP grew at an annual average of 3.4% per year, while the global GDP grew at an average annual rate of 4.1%. The Brazilian GDP grew above the annual world average in 2000, 2004, 2007, 2008, 2009 and 2010[1].

However, in 2015-2016, Brazil faced severe economic depression. The economy has decreased cumulatively by more than 7% in these two years. In 2016, the President of the Republic underwent an impeachment process, she was removed, and the political forces that took over the government (which had a clear identification with the right and the far right) began to blame the previous governments, more aligned to the left, as those responsible for the crisis.

The prevailing ideology from 2016 onwards, in line with neoliberalism, indicated the need to reduce the government's role in the economy to improve the economic environment for private investment, with the assumption that the economy would resume its growth.

However, the results did not correspond to the prescribed logic: the economy stagnated. Even after the 2015-2016 crisis, it started to have minimal growth, around an average of 1% per year. From 2015 to 2019, the annual average of Brazilian GDP growth was negative, in the order of −0.5% per year, while the world grew at an average of 3.0% per year[2].

There is a gap between the neoliberal logic prescribed for economic growth and the practical results observed. This paper seeks to answer what would explain this lack of synchrony.

We concluded that the variable responsible for the slowdown in the Brazilian economy from 2015 onwards is the productive investment (private and public). It is still necessary to understand why private investment has not grown from 2015/2016 onwards, even with the implementation of the neoliberal logic.

A key to answering this question is based on understanding the impact of informal institutions on the behavior of economic agents. We understand that non-economic variables such as history, culture, social values, ideology and economic elites' behavior all impact the private investors' decisions (Commons, 1934; North, 1981; Acemoglu & Robinson, 2008, 2012; Chang, 2003a, 2003b; Maucorant & Plociniczak, 2013; Laville, Lévesque, & Mendel, 2005, and Polanyi, 2021)[3].

We hypothesize that these variables affect investors' long-term expectations through marginal capital efficiency. In contrast to neoliberalism, we understand that the economy is not a separate branch of society. Following the sociologist Polanyi (2021), we believe that the economy is embedded in society, subordinated to history, politics and social relations, and these informal environments

[1]Author's estimates from data collected at the IMF website.

[2]Author's estimates from data collected at the IMF website.

[3]The relevance of social history and the relations among the spheres on the societies to explain the current social structure of the economy is developed in Laville, Lévesque, & Mendel, 2005.

impact decision-makers.

Our analysis considers the period from 2000 to 2019. We removed 2020 from our research due to the strong negative impact of the COVID-19 pandemic this year.

The paper has a first session where it makes an overview of recent years on the Brazilian economy, a second session which demonstrates the behavior of productive investment in Brazil (public and private, also in the recent years), and, finally, a third session where it tries to explain the demeanor of the private investors in Brazil according to the support of the institutional economics.

2. An Overview of the Recent Years in Brazil

Brazil had excellent economic results in the recent past, which had produced a wide enhancement in its social indicators. Brazil attained outstanding economic results from 1994 until 2014, we curbed a historical hyperinflation in 1994, and after that, we experienced steady economic growth since 2000.

From 2000 to 2014, the shape of the economic policy driven had a strict relationship with Keynesianism and interventionist policies by the government. It took place for the most part during Labor Party governments. From 2000 to 2002, Brazil was ruled by the Brazilian Social Democracy Party (PSDB), with central tendencies. From 2003 to 2014, the Labor Party (PT) managed the government, a central-left party.

However, in 2015 and 2016, the country faced a massive recession, with the GDP plunge, public budget deficits, and the unemployment rate surge. The age of sustainable growth got to an end. In 2016 Brazil suffered an impeachment process when President Dilma Rousseff was forced out of power. According to her critics, there was a lack of fiscal control in Brazil through illegal fiscal management, which was the base for the impeachment process.

The reduction of the role of the state in the economy, identified with neoliberalism, gained political space, starting to defend a stance of retraction of public spending. According to this thinking, this retraction would be better for the economy because it will reduce the interest rate due to an improvement in the government's reputation and positively stimulate the business class for new productive investments. Ultimately, the economic growth would naturally resume (Lynch, 2019; Guedes, 2019; Williamson, 1990, and Williamson & Kuczynski, 2004). However, this was not observed. Otherwise, the economy entered a clear stagnation in terms of GDP growth, demonstrating a gap between the theory defended and the practical results.

In parallel, Brazil lost international relevance in a short amount of time: in 2014, Brazil was in seventh place regarding the GDP sum of 192 economies in the world, representing 3.1% of global GDP, but in 2021 was only the 12th world economy, with 1.7% of the global GDP[4].

[4]Author's estimates from data collected at the IMF website. From 2014 to 2021, Brazil fell five positions in the largest global economies, overtaken by India, Italy, Canada, South Korea, Russia.

In social terms, two indicators analyzed (Gini Index and unemployment rate) showed improvements until 2014. This year was the heyday in terms of social indicators. Brazil got the best Gini Index in its historical series this year, 0.518 (albeit this result still was high)[5].

Figure 1 illustrates the unemployment rate. We observe that 2014 was the best year in this indicator, and since then, the results have been worsening.

Therefore, the pace of the GDP growth produced negative impacts on the social indicators.

Moreover, when we analyze the behavior of the Brazilian economy in the three periods of intense economic crisis of the last 40 years, we found that in the first two crises (1981-1983 and 1990-1992), the following years of resumption brought a leap in terms of product growth, causing that the Brazilian GDP had still net growth even considering the sharp initial fall. Nonetheless, this is not observed in the third period of crisis (2015-2016) because the subsequent years were not able to produce a positive net result, demonstrating the severity of the current picture compared to the previous two moments in history (as shown in Table 1).

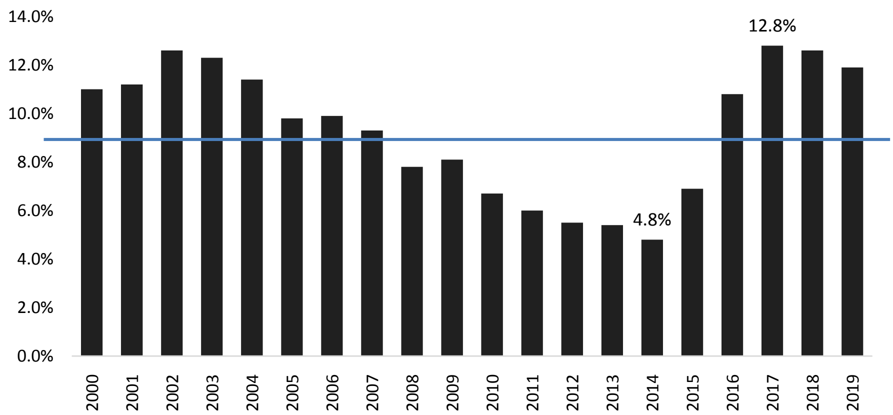

Figure 1. Unemployment rate in percentage of the economically active population in Brazil, 2000 to 2019. Source: Brazilian Institute of Geography and Statistics (IBGE) and author's elaboration. Notes: 1) The horizontal line represents the average of the sample: (9.3%). 2) 2014 shows the best result (4.8%), and 2017 the worst result (12.8%).

Table 1. Accumulated GDP decline, accumulated recovery, and net GDP growth in the three periods of the Brazilian economic crisis from 1981 to 2019.

Years of retraction	Immediately following years, the recovery period	Accumulated GDP decline in retraction years	Accumulated GDP recovery in recovery years	Accumulated net GDP growth over the entire period
1981-1982-1983	1984-1985	−6.28%	13.67%	6.53%
1990-1991-1992	1993-1994-1995	−3.89%	15.74%	11.24%
2015-2016	2017-2018-2019	−6.74%	3.36%	−3.61%

Source: IMF and author's elaboration.

[5]Data about Gini Index was collected from IPEA, Institute of Applied Economic Research.

How can we explain the loss of dynamism of the Brazilian economy since 2015? How can we understand that the recovery in 2017-2019 was so weak compared to two other moments of crisis that, contrarily, produced a strong and accelerated recovery of the economy after the crises?

The fundamental problem of this paper is: what does explain the gap between the desired results (ex-ante) from the application of the neoliberal theory economic policies and its observed practical effects, with results that did not work as expected? Would the unexpected results be the product of the informal institutional environment in Brazil?

What is the relevance of the political and institutional environment on the expectations of private entrepreneurs and their investment decision, and how may the institutional environment have negatively impacted the expectations of private entrepreneurs in their investment decisions[6]?

3. The Behavior of the Investment in Brazil

The point of disarray between ex-ante neoliberal theory and ex-post results concerns the behavior of productive investment—the investment made by private companies and the public sector on the stock of productive capital. Investment is the fundamental variable for long-term growth. Apart from this variable, the aggregate demand is dependent on variables that have relevant impacts in the short term: household consumption, current government spending and the trade balance.

In an analysis carried out among 164 countries based on IMF data, from 2010 to 2019, we found that the average total investment (private and public) as a percentage of GDP in these countries was 23.9%. Brazil performed below this average, with a rate of only 18.5% of investment compared to GDP (as shown in **Figure 2**, which illustrates how Brazil is below the average and the global median concerning total investment compared to GDP).

We also analyzed the same variable in the set of major economies in South America. Between 2010 and 2014, the average total investment in Brazil compared to its GDP was 21.5%, only slightly below the region's average in the same period (22.0%). However, it changes when we analyze from 2015 to 2019 because the average for the region is 20.4%, and Brazil is in the last position of the sample with only 15.5% (see **Figure 3**).

The investment numbers in Brazil have been decreasing since 2015, as shown in **Figure 4**. The public investment decreased 46.9% from the top result to 2019, while the private investment decreased 29.7% in the period.

We concluded that this sharp reduction in investment spending from 2015/2016 onwards had brought restrictions to economic growth in Brazil in the

[6]A non-economical but political variable, important in Brazil from 2015 onwards is the Operation Car Wash, which fought against corruption and had strong ideological alignment with the elites of the country, and which in its anti-corruption battle brought serious problems in strategic sectors such as oil and gas, heavy construction and the shipbuilding industry. According to the Interunion Department of Statistics and Socioeconomic Studies, this operation made 4.4 million people unemployed (DIEESE, 2021).

period immediately after the great crisis. The fall in investment expenses has impacted the economy's pace and contributed to unemployment. So, it becomes a puzzle, as the defense of neoliberal ideology claims that with the change in the role of the state in the economy, and the reduction of public spending, the incentive for investment (the Keynesian animal spirit) would return to private agents, but that is not what happened. There is a mismatch between ex-ante ideology and ex-post results.

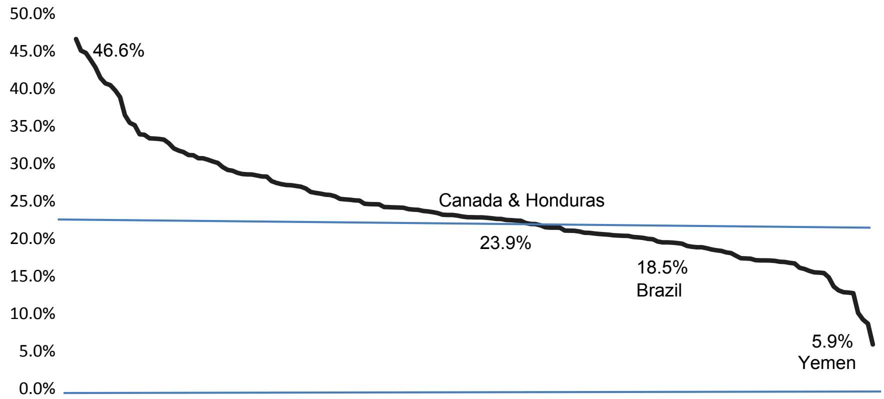

Figure 2. Total investment in percentage of GDP. 164 countries from 2010 to 2019. Average of the whole period. Source: IMF and author's elaboration. Notes: 1) The horizontal line represents the average of the sample: 23.9%. 2) Republic of Congo shows the highest result, and Yemen shows the lowest result. 3) Canada and Honduras reached the average percentage of the sample (23.9%).

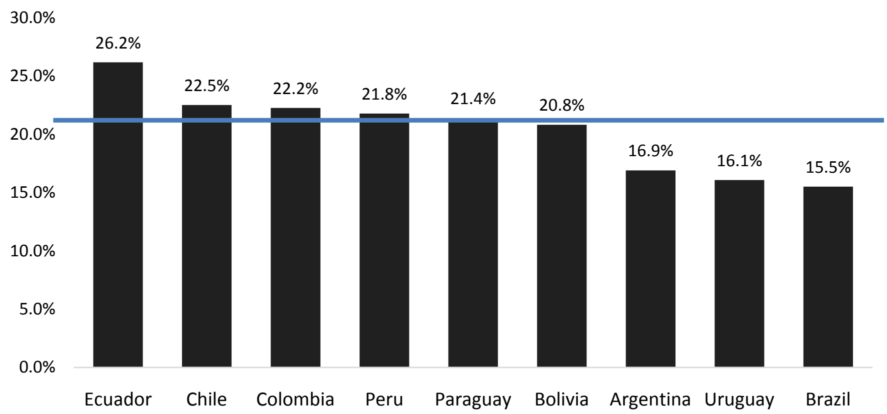

Figure 3. Total investment (private and public) in percentage of the GDP. Nine biggest economies in South America. Average of the period 2015 to 2019. Source: IMF and author's elaboration. Notes: 1) The horizontal line represents the average of the sample: 20.4%. 2) We excluded Venezuela due to the lack of information on some years.

4. Why Private Investment Did Not Grow in Recent Years in Brazil

Our analysis must separate public investment from private investment. Nevertheless, investment as a whole plays an essential role in the models of economic growth. In the traditional neoclassical Solow model (Romer, 2001), investment is

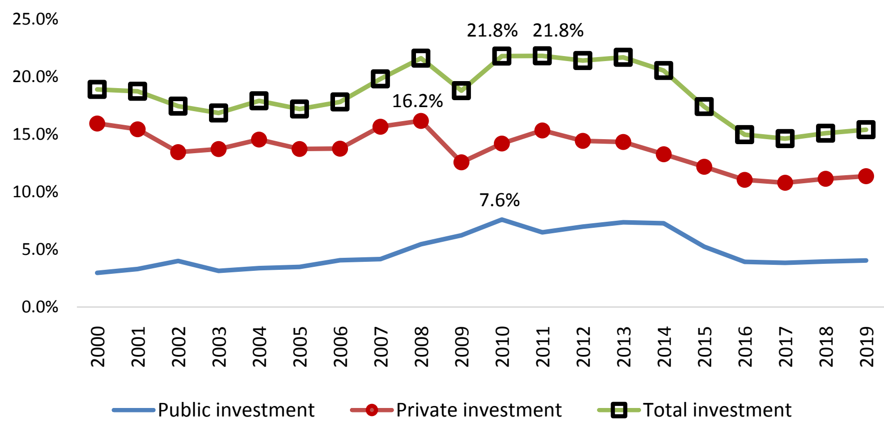

Figure 4. Public investment, private investment, and total investment in percentage of the GDP. Brazil, from 2000 to 2019. Source: Brazilian Institute of Geography and Statistics (IBGE) and author's elaboration. Notes: 1) The highest percentage in public investment was in 2010 (7.6%), its average level of the whole sample is 4.8%, and from the top result to 2019, the public investment decreased 46.9%. 2) The highest percentage in private investment was in 2008 (16.2%), its average level of the whole sample is 13.7%, and from the top result to 2019, the private investment decreased 29.7%. 3) The highest percentage in total investment was in 2008 and 2010 (21.8%).

vital because it needs to be higher than the level of the variation rate of the workforce, variation rate of knowledge and the depreciation over the previous stock of capital to permit the economy to grow beyond the break-even point. Before Solow, the Keynesian model showed us that productive investment is the basis of the economy's long-term behavior logic.

The public sector, especially the federal government, has always historically played a crucial role in investment spending in Brazil. The federal government and its state-owned companies, such as PETROBRAS and others, worked overtime as inducers for private investment. In Brazilian history, the public sector investment was usually the initial inductor of the process and having private investment in its wake.

Brazilian capitalism had worked in this way since the thirties of the last century when Brazil began its accelerated industrialization and urbanization process. In other words, private investment came in the wake of the public investment made initially (Pereira, 1998, 1987, and Carvalho, 2018).

An econometric study by Bredow, Cunha, & Lélis (2020) demonstrates that the gross fixed capital formation of the public sector has a statistically significant multiplier effect on the private expenses in machines and equipment, so these public investments would have the ability to boost the private expenses and the economic growth. According to Orair (2016), and working with numbers brought by its study, the federal companies were responsible for 39% of the public investment on average from 1994 to 2015. However, following the dominant ideology since 2016, PETROBRAS, the major state-owned company, decreased its investments sharply by 79.6% from 2013 to 2019, as shown ahead (**Figure 5**).

That is the new critical airs to the intervention of the public sector on the economy, that started to dominate Brazilian society from 2016 onwards, got a significant victory in December 2016, through the Spending Ceiling Law, which was enacted as a constitutional amendment. According to this law, federal public spending can only grow following the previous year's inflation by the next twenty years from 2017. Therefore, the national public spending should remain constant in real terms, except for the inflation correction. In this way, the role of the public sector as an inductor of investment has been reduced since investment expenditures are considered primary expenses and are included in the expenditure ceiling.

Nevertheless, we have observed from 2016 that the increase in private investment did not accompany the reduction in public investment. In fact, public investment fell, and private investment did not grow as the ex-ante liberal ideology allowed.

The graph ahead (Figure 6) shows investment numbers as a percentage of GDP in the infrastructure item. We observe that spending on infrastructure made by the public sector falls from 1.25% of GDP to 0.51% of GDP in the period

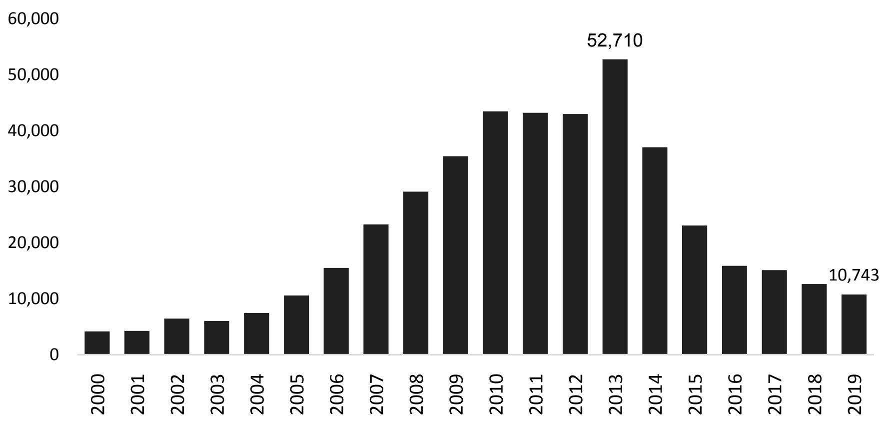

Figure 5. Investments made by Petrobras from 2000 to 2019, in Billions of US Dollars. Source: http://www.petrobras.com.br/ and author's elaboration.

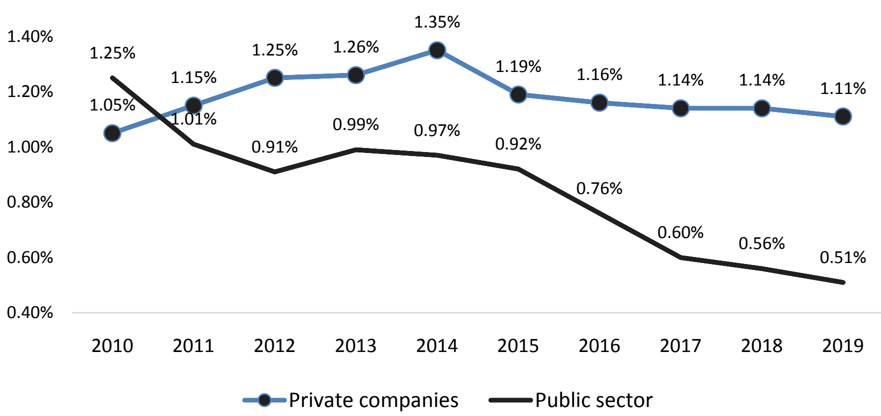

Figure 6. Investment in infrastructure (private and public) in the percentage of the GDP. Brazil, from 2010 to 2019. Source: Brazilian Institute of Geography and Statistics (IBGE) and author's elaboration.

(meaning an average annual reduction of 6.58%). In comparison, investments made by private companies grew by 1.05% to 1.11% of GDP (average annual growth of 0.63%).

What would be driving such a low pace of private investment? Here, we follow the traditional Keynes logic of explaining private investment behavior based on the market interest rate and the expectations of the business class regarding the future (marginal capital efficiency).

Keynes signaled well about the dependence between the marginal efficiency of capital and the variations on the business people's expectations, which implies strong fluctuations in the business cycles. More than this, according to him, the marginal efficiency of capital would be pivotal, much more than to the interest rate, through the way that the expectations about the future influence over the present days (Keynes, 1992)[7,8].

Interest rates in Brazil have historically always been very high, following the behavior of the Brazilian Central Bank's basic interest rate (SELIC), which has usually been worked at high levels as a way of implementing a contractionary monetary policy to fight against inflation. The behavior of SELIC has not changed in a structural form in recent years. Therefore, it would be up to the expectations of the business class about the future to partially explain the behavior of private investment.

Analyzing the values of the real SELIC rate (discounted for inflation) in comparison with the ratio of private investment to GDP, we observe that there is a positive and relatively significant linear correlation between the variables (correlation equal to 0.36), which denies the negative impact of the interest rate on private investment, ate least in Brazil in recent years. If we look at the year 2019, we see that Brazil had the second-lowest real interest rate in the series, but the percentage of private investment compared to GDP was only 11.4%. In 2018 there was also a low real interest rate, but the private investment compared to GDP was only 11.1%. Thus, it demonstrates that there is much more to explain private investment behavior than the interest rate, and expectations play an essential role in private decision-making (see **Figure A1** at the end of this work).

We found a conundrum: the drastic change of government in 2016 begging for an economy with less state participation in the economy; this would lead to an increase in private investment, but private investment did not grow as it should, despite the downturn in the public sector; in the end, Brazil went through a

[7]Keynes defines the marginal efficiency of capital as the rate discount of a new investment that would bring de future cash flow discounted to the present to the current value of the good offer price. So, it is the internal rate return of new investment (IRR). Note that the IRR is not defined or influenced by the level of current or future interest rates but, otherwise, by the market expectations. These expectations are related to market growth, consumption and social and political environment.

[8]The investment function, according to Keynes, is formed by autonomous investment, investment induced by GDP, investment negatively induced by the interest rate and by substitution to cover the loss with depreciation. In this way, the marginal efficiency of capital would affect autonomous investment and investment induced by GDP (here, we have a strong relationship with future expectations).

phase of stagnation in its economic growth.

The low growth we have already found is the low level of investment. The question is: why did the private business class start to have a bad expectation about the future, embodied in a bad marginal efficiency of capital?

In other words, the economy does not grow because public investment is constrained, and private investment does not react positively. We hypothesize that the private investment does not increase due to the business class's poor perception of the future, contaminating its marginal capital efficiency.

This perception of the future can be explained by the impact of institutions on private agents. We consider not only the effects of formal institutions (laws, contracts, functioning of public bodies) as advocated by the NIE (Williamson, 2001).

Still, we also understand and accept the impact of informal institutions on the economy, as the history, culture, values, and the behavior of decision-making (Commons, 1934; North, 1981; Acemoglu & Robinson, 2008, 2012; Chang, 2003a, 2003b; Maucorant & Plociniczak, 2013; Laville, Lévesque, & Mendel, 2005, and Polanyi, 2021). In a more intense way or smoothly, all these authors pointed out the relevance of the informal institutional environment on the economic agents. Notice that Douglas North, considered an NIE exponent, accepts the idea of informal institutions when he quotes the importance of the ideology in his book *Structure and change in economic history* (1981)[9].

Considering the economic history of Brazilian society, when the state has always played a decisive role in inducing and regulating the economy, and taking into account that private decision-making elites in Brazil have become used to following the public sector, making the private investment as a consequence from the large public investments made by the state and state-owned companies, we can understand that the decision-makers became passive, waiting for the public investment which would be able to produce a multiplying effect and encourage the private expenses in new investments. It can be understood as the impact of social values and history on private investors' behavior.

This pattern induces the understanding of Brazilian elites as having a passive demeanor, not an active attitude, which could be explained by Brazilian history and culture[10]. In the same way, according to the Elite Quality Report 2020 (Casas & Cozzi, 2020), Brazilian elites only reached the 27th position in a ranking composed of 32 countries. The structure of this work is underpinned by the elites' capacity of creating values for their societies, being value-creating elites (creating more value than capturing it or being value extracting elites (capturing

[9]Rutherford (1994) makes a comprehensive and excellent analysis trying to comprehend the old institutionalists (OIE) and the NIE, encompassing issues related to formalism, holism × individualism and rule-following × rationality. Despite the fact that both research fields have no homogeneous demeanour about these themes, the author upholds the logic that the OIE is slanted to the methodologic holism. Hence the ideology would be one of the exogenous variables which are part of the whole informal institutional framework on the economy.

[10]"Markets are in the end political constructs, in the sense that they are defined by a range of formal and informal institutions that embody certain rights and obligations, whose legitimacy (and therefore contestability) is ultimately determined in the realm of politics" (Chang, 2003a: p. 54).

more value than creating it). This work is close to Acemoglu & Robinson (2012) and their thesis on creating inclusive or extracting economic and political institutions as the milestone to develop a more advanced society. According to the study above (Casas & Cozzi, 2020), the decision-makers in Brazil have a more extractive characteristic. They would be closely linked to a rent-seeking behavior, acting as dependent on the structural movements made by the government.

Hence, although the decision-makers have defended the change of economic policy in 2016 to neoliberalism, they continue to act as dependents of the government to make new investment outlays following the field opened by previous investments made by the public sector.

This could confirm the power of the ideology's impact on economic performance. Many of the changes charged by the defenders of neoliberalism in Brazil started to be implemented in 2016, but economic growth did not happen. Albeit the ideology begs for one way, the behavior of the decision-makers in private investments is still significantly linked to the demeanor of the public sector investment, like a history and culture variable that had shaped this way of being. Hence, the public sector retreaded itself, and it has been producing a non-expected result, after all.

5. Conclusion

The numbers of productive investments in Brazil have been falling since 2016, bringing hindrances to GDP growth. This low growth negatively impacts society as a whole, as we observe the worsening of the Gini index (thus the increase in income inequality) and the increase in the unemployment rate.

Investment has fallen for two reasons: First, federal public investment is tied to the spending control created by the constitutional amendment of the Spending Ceiling. Second, private investment has not grown to the point of overcoming the fall in public investment. The non-growth of private investment becomes an enigma since the prevailing logic from 2016 onwards is the logic of reducing the state's role in the economy to increase the participation of private capital, but this has not taken place.

We concluded that what has constrained the increase in private investment is a negative perception of the future of the business class (which we identify as a low marginal efficiency capital), which would not be logical since the dominant ideology was implemented precisely to produce more private investment.

Due to this, we suppose that private investors would have a poor perception of the future following the slow pace of economic growth, the fraying of the internal market explained by the surge of the unemployment rate. All of this would ultimately be related to the withdrawal of the government from its historical role of carrying out structuring investments.

Following the lines above, we understand that this could confirm the impact of the informal institutions (such as the history and the ideology) on the private investors and, after all, on economic performance. From 2016, Brazil started to adopt an economic policy framework linked to liberalism and neoliberalism. Nevertheless, the GDP growth only levelled off around 1% per year (2017 to 2019). Albeit the ideology demands to follow for one way, the behavior of the decision-makers in private investments seems to be still closely dependent on the federal government investment (as historically happened in Brazil). Hence, the public sector decreased its expenditures from 2016, but it has been producing a non-expected result, after all.

Brazilian history could explain in part of the attitude of private investors. At the same time, ideology, or its support, could clarify further why Brazilian elites, while defending a pattern of economic policy that demands the reduction of the role of the state in the economy, are still tied to their way to act historically, as dependent on the behaviour of public investment.

Related Links

Banco Central do Brasil. https://www.bcb.gov.br

Instituto Brasileiro de Geografia e Estatística. https://www.ibge.gov.br

International Monetary Fund. https://www.imf.com

Instituto de Pesquisa Econômica Aplicada. https://www.ipea.gov.br

Petróleo Brasileiro SA, PETROBRAS. https://www.petrobras.com.br

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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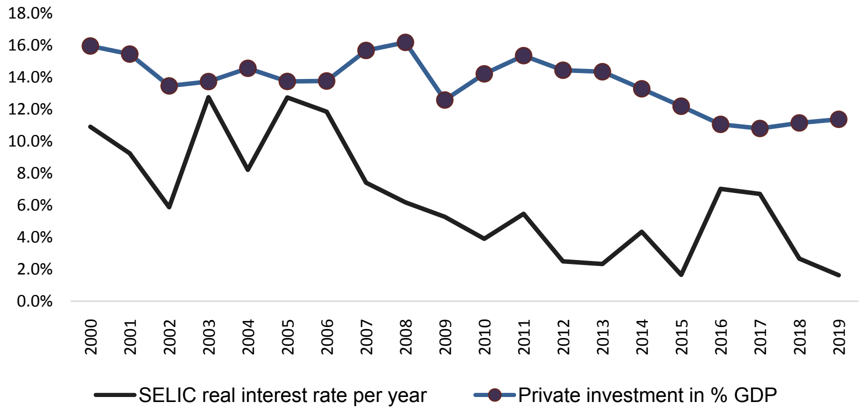
Appendix



Linear correlation coefficient between ***real interest rate*** and the ratio of private investment to GDP	0.33

Linear correlation coefficient between ***nominal interest rate*** and the ratio of private investment to GDP	0.36

Figure A1. Brazilian inflation rate, Brazil nominal Central Bank interest rate, Brazil real Central Bank interest rate, and the ratio of total investment to GDP, from 2000 to 2019. Source: Brazilian Central Bank, IBGE and author's elaboration.