Beliefs, Leadership, and Critical Transitions
BRAZIL, 1964–2015

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BRAZILIAN CRITICAL TRANSITION BEGAN IN 1994

MACROECONOMIC STABILITY WEDDED TO GREATER ECONOMIC AND POLITICAL INCLUSION

TO UNDERSTAND TRANSITION: NEED CONCEPTS OF BELIEFS AND LEADERSHIP WEDDED TO INSTITUTIONS

CONCEPTS FORM A DYNAMIC FRAMEWORK USEFUL FOR UNDERSTANDING PERSISTENCE AND CHANGE
Institutions matter: now mainstream
NO RECIPE FOR INSTITUTIONAL CHANGE

- ELITES MAINTAIN RENTS -->
MOST COUNTRIES ON AUTOPILOT

Institutional Change – Contextual
INSTITUTIONAL CHANGE

SOME OUTLIERS ADOPT INSTITUTIONS THAT ENABLE A VIRTUOUS TRAJECTORY

WHY?
BELIEFS SHAPE INSTITUTIONS

“SUBJECTIVE VIEW OF THE WAY THE WORLD WORKS” (NORTH 2005)

CAUSAL BELIEF ABOUT HOW INSTITUTIONS AFFECT OUTCOMES

ACTORS HAVE DIFFERING BELIEFS:

Post-financial crisis: stimulus or austerity?

CHANGES IN BELIEFS KEY TO CHANGES IN INSTITUTIONS
WHAT IS BEHIND CHANGING BELIEFS?

WINDOWS OF OPPORTUNITY
WHAT IS BEHIND CHANGING BELIEFS?

ECONOMIC AND POLITICAL OUTCOMES DIFFERENT FROM EXPECTATIONS:

WINDOW OF OPPORTUNITY TO CHANGE BELIEFS AND INSTITUTIONS.
WINDOWS OF OPPORTUNITY AND LEADERSHIP

WINDOW OF OPPORTUNITY: BELIEFS ARE SOMEWHAT MALLEABLE

LEADERS: NEEDED TO CIRCUMVENT FREE-RIDER PROBLEM
LEADERSHIP: Leaders of Governments

Cognition: Understanding the Problem

Coordinative: The “Art of Policy Making”

Moral Authority: Supports Leadership

Today’s Leaders: More forward looking than pioneer countries because of role models and beliefs
DYNAMIC IN ACTION
DYNAMIC: incremental institutional change or a punctuated path of institutional change.

OUTCOMES: either more or less open economically and politically.
BELIEFS

Configuration of Power

GOVERNMENT
ELITE ORGS

DYNAMIC

FORMAL INSTITUTIONS

NORMS

ECONOMIC & POLITICAL OUTCOMES

WINDOW OF OPPORTUNITY

LEADERSHIP

Marginally different than expectations

Significantly different than expectations

OUTCOMES
Autopilot

Shock

Window of Opportunity

Leadership

New Autopilot

BELIEFS
Configuration of Power
GOVERNMENT
ELITE ORGS

FORMAL INSTITUTIONS

NORMS

ECONOMIC & POLITICAL OUTCOMES
**Belief**

- **Developmentalism**
- **Social Inclusion**
- **Sustainable Social Inclusion**

**Institutions**

- **1964–1985**
  - **Economic**: Technocratic social planning, import substitution
  - **Political**: Curtailment of civil liberties
- **1985–1994**
  - **Economic**: Subsidies to business elites and import substitution
  - **Political**: ‘Christmas tree’ constitution, franchise for illiterate
- **1994–2014**
  - **Economic**: Fiscal and monetary orthodoxy
  - **Political**: Restraints on state governments with power shifting to the federal government

**Economic and Political Outcomes**

- **Grow Now, Divide Later**
  - **Economic**: Initially high growth, ‘Brazilian Miracle’ followed by slower growth
  - **Political**: Authoritarian rule with exclusion, censorship, and oppression
- **Political and Economic Instability**
  - **Economic**: Hyperinflation and uncertainty
  - **Political**: Democracy w/o checks and balances, e.g., populist land reform, judiciary siding for labor
- **Macro Stability with Social Inclusion**
  - **Economic**: Price stability with mediocre growth
  - **Political**: Increasing social inclusion if fiscally sound
BRAZIL UNTIL RECENTLY
Brazil takes off
MODERN BRAZIL

RESERVES AT $368 BILLION AND LENDER TO THE IMF

INCOME INEQUALITY AND POVERTY FALLING SINCE 1994

GDP/P INCREASING SINCE 1993 WITH LESS VARIATION

POLITICS INCREASINGLY TRANSPARENT AND OPEN

WORLD PLAYER IN INTERNATIONAL AGREEMENTS

CORRUPT POLITICIANS PUNISHED BY CITIZENS AND ELECTORAL COURTS
BRAZIL AT 2014

WHY?
LEADERSHIP AND INSTITUTIONAL DEEPENING
You can't inflate away your troubles or allow mountains of debt to build up...
Building prosperity requires caution and patience. It requires time. Populism is a short cut that doesn't work.

FERNANDO HENRIQUE CARDOSO

(TWO TERMS)
AUTOPILOT WITH INSTITUTIONAL DEEPENING
Brazil has rediscovered itself, and this rediscovery is being expressed in its people's enthusiasm and their desire to mobilize to face the huge problems that lie ahead of us.

LUIZ INÁCIO LULA DA SILVA

(TWO TERMS)
The Brazilian people do not accept that governments spend more than is sustainable.

PRESIDENT DILMA ROUSSEFF

(Acceptance Speech Nov 2010)
POST 2014: A NEW WINDOW OF OPPORTUNITY

DILMA WON A CLOSE ELECTION – 51% (POLITICS OF FEAR)

COMMODITY PRICES FELL

PETROBRAS SCANDAL

DRAMATIC FALL IN EXCHANGE RATES AND THE STOCK MARKET

CALLS FOR IMPEACHMENT
Has Brazil blown it?

A 14-page special report
INSTITUTIONS HOLDING OR BREAKING?

CORRUPT POLITICIANS GOING TO JAIL

PROTEST MOVEMENTS

BUT, LITTLE TO NO VIOLENCE

NO MILITARY INTERVENTION

INSTITUTIONS SEEM TO BE HOLDING
Brazil cleans up its act, so should Mexico

John Paul Rathbone
POSSIBLE SCENARIOS

President and VP muddle through
  — three more years is a long time to muddle

Impeachment and new election
  — likely victory to the center right and movement back to fiscally sound social inclusion

New leader to seize window of opportunity and move to far left?
  — appears unlikely
All of the great leaders have had one characteristic in common: it was the willingness to confront unequivocally the major anxiety of their people in their time. This, and not much else, is the essence of leadership.

JOHN KENNETH GALBRAITH
Progress occurs when courageous, skillful leaders seize the opportunity to change things for the better.

HARRY TRUMAN
THANK YOU