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# Progress and setbacks in the neo-developmentalist agenda of public policy in Brazil

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## Abstract:

This text's purpose is to analyze the progress and setbacks in public policies during PT (*Partido dos Trabalhadores*) governments (2003-2015), especially macroeconomic, industrial, social and income-related policies, as well as their relation to the neo-developmentalist agenda. My overall argument is based on the assumption that coalition and ideas matter. Ideas are important to build and to destroy coalitions. Coalitions formed in society are important because they support the adoption of public policies. The developmentalist coalition (1930's-1980's) supported a set of policies that led to the industrialization of the Brazilian economy. When this coalition entered into a crisis (1980's-1990's), it has been replaced by the disinflationary-reformist coalition (post-1994), which supported the application of disinflationary policies and inflation control, as well as the liberalization reforms (neoliberal). This coalition remained very active in PT governments, especially in relation of macroeconomic policy, whose policies have never moved away from the economic ideas which unify that coalition. The austerity policies adopted by the government in 2015 is an example of the importance and political weight of this coalition. However, the governments of PT - backed by a new coalition (neo-developmentalist) - sought to reorient industrial, social and income policies. In the case of industrial policy, its effects were mitigated by maintaining a disinflationary macroeconomic policy based on the appreciation of the Brazilian currency (real). As for social and income policies there was an undeniable progress, despite these policies have always been under the attack of the disinflationary-reformist coalition.

## Keywords:
Politics, public policy, Latin America

# 1 Introduction

This text's purpose is to analyse the changes in public policies during the terms of the PT (*Partido dos Trabalhadores*) governments (2003-2015), especially macroeconomic, industrial, social and income-related policies, and their relation to the neo-developmentalist agenda.

My overall argument is based on the assumption that coalition and ideas matter. Ideas are important to build and to destroy coalitions. Coalitions support the adoption of public policies. In the Brazilian case a developmentalist coalition emerged in the 1930s and then entered into crisis in the 1980s, before being destroyed by a disinflationary-reformist coalition in the 1990s. A neo-developmentalist coalition rose during PT governments and tried to challenge the previous coalition with controversial results.

The paper is divided into three parts. In the first part, I present a brief review of the importance of coalitions and alliances for public policy analysis and a description of the main coalitions forged in Brazil since the 1930s. Then I analyse the strength of neoliberalism, and the attempt and failure to change the macroeconomic policy inspired by neo-developmentalism during the PT governments time in power. I look at its success at stimulating industrial, social and income-related policies. Finally, I conclude that PT governments not only failed to destroy the coalition that supports neoliberalism but also walked towards that coalition in 2015.

# 2 Coalitions and alliances

## 2.1 The importance of coalitions and alliances for public policy analysis. A review[1]

The analysis of existing coalitions is essential to understand the dynamics of the exercise of political power in a given society. Marx, for instance, did not produce a "theory of coalitions" but applied the concept of "alliance"[2] to examine the political dynamics of class struggles in mid-nineteenth century France and in seventeenth century England. Indeed, the fundamental Marxian concept for political analysis is class struggle. It is noticeable that in his empirical analysis of class struggles, the concrete action of classes and class fractions, Marx identified the formation of several coalitions in the "political scenery".

The most representative works of Marxian political analysis are *The class struggles in France, 1848 to 1850* (1984a) and *18th Brumaire of Louis Bonaparte* (1984b). In the latter, coalitions are expressed both through the medium of political parties and in the formation of parliamentary blocs in the French parliament. Class links in between social and political coalitions were unusual in interpretations at that time, and the idea constituted the greatest novelty introduced by Marx.

The author emphatically states that the different natures of British and French bourgeois revolutions are explained by the existing coalitions in those societies. In the former, a coalition of bourgeoisie and landowners explains the conservative nature of the revolution – a "top-to-bottom" revolution. In France, on the other hand, landowners' inability to form a coalition with the bourgeoisie resulted in the end of landownership itself. In the French case, coalitions were always strictly linked to social classes.

Another important element stressed by Marx is the difference between the economic structures in England and France. In the first nation, landownership was bourgeois, focused on the production of surplus, while in the second it was still feudal in character. The form of coalition in England was a result of the bourgeois nature of landownership there, which

[1] This section is an abbreviated and altered version of Novelli (2007).
[2] Alliance and coalition are synonymous concepts.

made the constitution of "common interests" between dominant classes possible and fostered the emergence of a coalition among those classes. In that sense, a shallow interpretation could perceive Marx's argument as deterministic in economic terms.

Yet a careful interpretation does not share this perception, since the success of a coalition cannot *solely* be attributed to features of the economic structure. "Common interests" may be an "incentive", but they do not automatically entail the formation of a coalition. In *18$^{th}$ Brumaire*, Marx provides a series of example-situations in which the "common interests" – bourgeois interests – did not contribute to the formation of coalitions, but to the unleashing of fratricide and antagonism regarding, for instance, the form the State and political regime should take (Boito Jr., 2002).

Historical institutionalists have also analysed the formation of coalitions. Gourevitch (1986) examines their formation between social actors – in business, agriculture and labour – in five countries – Germany, France, the United Kingdom, Sweden and the United States – as a response to three international crises (1873-1896, 1929-1949, 1971-1980s). In his analysis, he interprets the different responses of the aforementioned countries to severe international economic crisis applying the concept of coalition.

Gourevitch (1986) mentions several elements as stimuli for the formation or disarticulation of coalitions. The first is the position actors occupy in the national economy *vis-à-vis* the international economy. A coalition is forged when actors seek a specific State policy. Another element is the representation mechanisms (political parties and interest-group associations) that link social actors' preferences to State institutions. The third element is the structure of the State (norms and institutions), which may ease or hinder the action of parties and associations. Economic ideology, the fourth factor, is the lens through which social actors regard politics and economy, and which informs their interests and guides their actions. Finally, political and military rivalries in the international system also affect the policies that are adopted internally.

According to Hall (1989, p.370-375), for economic ideas to become public policies, they should present the following characteristics: i) economic viability – the ability to solve economic-related problems; ii) administrative viability – recognition by bureaucrats and rulers that it is possible for the State to implement those policies; and iii) political viability – the possibility that politicians' can build coalitions between social "groups" through the ideas.

Coalitions might also be characterized in respect to the levels of formalization and visibility they display. There are four possible situations: high visibility and formalization ("formal public coalitions"); high visibility and low formalization ("informal public coalitions"); low visibility and high formalization ("formal reserved coalitions"); and low visibility and formalization ("informal implicit coalitions") (Abranches, 1993, p.70). These various different typologies are useful for making sense of the Brazilian case.

## 2.2 Coalitions and the Brazilian case

Since the 1930s, it has been possible to see the emergence of a developmentalist coalition in Brazil, beginning as a State initiative with the import substitutive industrialization model as its main economic expression. After the Second World War, its characteristics became more precise: while national capital produced non-durable consumer goods, foreign capital was devoted to consumer durable goods while the State was responsible for the infrastructure sector through public companies' actions (Evans, 1979). In partnership with international banks, the State was the main long-term lender in the economy. Domestic private bank capital remained a secondary actor in funding the economy. Only urban workers are part of this developmentalist coalition. The economic policy's goal is the pursuit of economic growth, something seen as the solution to most structural problems in society.

From the 1970s, the predominant role of international bank capital in the developmentalist coalition became increasingly obvious, especially after the increase in petrol prices, and the gigantic rise of international liquidity caused by petrodollars. This developmentalist coalition's crisis was closely related to the external debt crisis of the 1980s and the withdrawal of international bank capital, which turned it into an inflationary coalition (Novelli, 2007).

As the monetary stabilization plan (Plano Real, in 1994) was set into motion, the inflationary coalition was dismantled and replaced by a disinflationary-reformist coalition – reformist because it assumed market-oriented reforms were the only possible path to resume economic growth, and disinflationary because combatting inflation was the main goal of its economic policy. The coalition, which could also be named neoliberal, is composed of international financial capital – which once again is the main funder of the Brazilian economy – the bourgeoisie with the general increase of foreign capital, a parcel of organized workers (represented by the trade union Força Sindical), and numerous disorganised workers who benefit from the end of inflation tax and the increase in real incomes. The reduced State participation in the coalition is due to the change of profile of the bank system and the privatisation of infrastructure sectors.

Lula's election in 2002 represented the ingression of a new parcel of organized workers, the *Central Única dos Trabalhadores* (CUT) into the disinflationary-reformist coalition. From 2006 onwards, with the expansion of internal markets, the resumption of public investment and the commodities boom, a new (neo-developmentalist) coalition began to form. The workers ensemble, the State (State-controlled companies and pension funds) and heterogeneous sectors of the capital, which could not be defined beforehand in relation to supposed economic benefits obtained by the gestating strategy, composed this coalition[3].

## 3. Public Policy

### 3.1 Macroeconomic policy

Starting from his inauguration day, January, 1st, 2003, macroeconomic policy during Luiz Inácio Lula da Silva's government showed continuity with that pursued by his predecessor (Fernando Henrique Cardoso, 1995-2002). Lula's exchange policy (appreciation of the Real) reproduced the one in Cardoso's first mandate (1995-1998). Monetary policy was also characterised, in both governments, by elevated real interest rates, and tax policy continued to produce primary surplus.

Lula's government blamed Cardoso's for the harshness of the adopted measures. Domestically, the so-called "accursed inheritance" consisted of elevated public debts – 29.2% of the GDP on 31 December 1994 (one day before Cardoso took office) and 55.9% on

[3] In a new perspective, Boito Jr. (2012, p. 7) considers that organised workers (including rural ones) and the internal bourgeoisie ("mining, heavy construction, agribusiness, transformation industry and, to some level, big public and private banks with mainly domestic capital") formed a "neo-developmentalist front" that would be defined as a neoliberal moderate coalition, as opposed to the orthodox neoliberal coalition ("the major international capital, the fraction of the Brazilian bourgeoisie that is both integrated and subordinated to it, sectors of large landownership and the upper middle class, especially, but not only, the ones in private sector"), Boito Jr. (2012, p.4).

31 December 2002 (last day in his mandate)[4]. The annual inflation rate in 2002 was 12.53% (IPCA).

There was little room for manoeuvre in Lula's government. However, rather than looking for alternative solutions, his government initially deepened and strengthened his predecessor's economic orthodoxy. Negotiations with the IMF carried out during Cardoso's government, in September 2002, had brought an agreement that primary surplus should be generated, corresponding to 3.75% of GDP. When Lula took office, the previous figure was raised to 4.25% of the GDP, a decision made on his own account and without any compensation or reciprocal agreements from the IMF. The government took a path of fiscal adjustment and high interest rates[5], and then renewed an agreement with the IMF in November 2003 that was meant to maintain the achieved "credibility" within both domestic and international financial communities. This all took place despite PT's historical criticism concerning such agreements, which it had considered attacks on the country's sovereignty and a punitive to those occupying the lowest rung on the social and economic ladder in Brazil. What could justify such changes in PT's outlook?

The intensity of the electoral competition changed the party's discourse, strengthening its majoritarian sector (moderate) and undermining its left-wing. Many see this shift as merely an instrumental strategy for obtaining electoral victory and ignore some of the postures the party had been defending for some time. A necessary transition period to move from the inherited model to the one PT would implement was defended in the *Letter to the Brazilian people* (Lula da Silva, 2002). The document, presented by Lula in June 22, 2002, was a response to the deterioration of the macroeconomic situation (increase in "Brazil risk", inflation, currency devaluation) in Cardoso's last year in charge, and sought to tranquilize "markets", committing to change and, at the same time, to respecting contracts and producing primary surplus. The government program too reaffirmed the transitional thesis and adopted a moderate discourse – committed to "responsibility" and avoiding topics seen as "radical": "Our government will not break contracts or revoke the established rules. International compromises will be respected" (Anon 2002, p.10). Denunciation of agreements with the IMF, for instance, did not occur.

The letter and other government communication signalled that the PT would rule without prompting major changes to the disinflationary-reformist coalition. Another further clear sign of what was to come was Lula's choice of vice-president – José de Alencar, a powerful industrialist in the textile sector.

Maintaining the economic orthodoxy became the aim in macroeconomic policy, not only with respect to the measures implemented, but also to the positions the government adopted on issues such as social policy, BCB's (Brazilian Central Bank) autonomy and social security reform – all considered to reduce "Brazil's risk" and the interest rate. Evidence of this is provided in the document *Economic policy and structural reforms* (BRASIL, 2003a), published by the Ministry of Finance's Economic Policy Secretariat in April, 2003, in which the adjustments in public accounts are set as the first compromise of economic policy, in order to promote fiscal discipline and regain the financial market's trust. Primary surplus is portrayed as an imperative to reduce the ratio between debt and GDP, country risk and

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[4] This large increase in the public debt is strictly related to Plano Real, implemented by Cardoso when he occupied the Ministry of Finance during Itamar Franco's government (1992-1994). For more information about this process of monetary stabilization, see Novelli (2007).

[5] CB elevated the annual basic interest rate (SELIC) to 26.5% (February 2003) and kept it stable until June 2003, when it was gradually reduced and finally stabilized in 16.5% (December 2003). In April 2004, the interest rate was 16%. In September, it restarted growing, reaching the peak of 19.75% in May 2005. Once again, it was stabilized until September, when it was gradually reduced, reaching 13.25% in December 2006. During Lula's first mandate, the inflation rate (IPCA) was 9.3% in 2003, 7.6% in 2004, 5.7% in 2005 and 3.1% in 2006. Therefore, the interest rate was extremely elevated – 10% a year on average.

interest rate. In addition, it is perceived as the saviour of the public sector's investment ability and as the only way of reaching the hoped-for "investment grade". The document contained little of difference from the recommendations of the former Minister of Finance in Cardoso's government, Pedro Malan. To gain the trust of "markets", the government has eased previous discourse, on opposing, for instance, the non-payment of the public debt, all on behalf of credibility and responsibility.

Not only does the macroeconomic policy of Lula's government reproduce the primary surplus policy seen in Cardoso's second mandate, but it also does so with the policy of appreciation of the Real applied during the predecessor's first term. Monetary policy based on a high interest rate has proved ineffective in the control of administered prices, having its indexation ensured in contracts. The policy of high real interest attracts short-term capital, appreciates the Real and keeps inflation under control. Its main drawback, however, has to do with economic growth, which remained low[6].

There are various different interpretations of the Lula government's first years in power. To Paulani (2003), the argument put forward by the government explaining its economic policy was not convincing. Arguing that the previous model had to be maintained because the Brazilian economy was supposedly on the brink of insolvency was misleading: the level of stocks was stable in 2002, the trade balance generated surplus, and the third agreement with the IMF offered the government fiscal relief.

Sallum Jr. & Kugelmas (2004) and Morais & Saad-Filho (2005) disagree. They suggest Lula's election did generate mistrust in the financial markets and a number of institutions threatened not to buy government treasury bills after December 31, 2002.

Oliveira (2003) meanwhile associates the government's maintenance of the old economic model with the emergence of a new social class partially constituted by a Brazilian trade-unionists' elite, which started managing public and/or social security funds and participating in companies and banks' management boards.

For Boito Jr. (2006), the continuity was due to the permanence of financial capital as a hegemonic faction of the bloc in power, regardless of important changes that occurred within this bloc.

To Novelli (2010), hints that the PT government would adopt an orthodox macroeconomic policy were already expressed in the election campaign, mainly in the *Letter to Brazilian People* (Lula da Silva, 2002) and in PT's endorsement of the last agreement made by Cardoso with the IMF. After the election, the distance taken, firstly, by the most important economic thinkers in PT, and afterwards by the new government's economic team was reflected in Lula's economic path. The nucleus of macroeconomic policy staff (Ministry of Finance and Central Bank's management board) remained mostly unchanged from the previous government and the main representatives economic orthodoxy –economists from Pontifícia Universidade Católica in Rio de Janeiro (PUC-Rio) and from national and international financial institutions remained influential. Some of those in charge during Cardoso's government were kept in place in Lula's term; others who had stepped out in the previous government returned. Antonio Palocci, former congressional representative and mayor of Riberão Preto (SP), was the coordinator of Lula's electoral campaign and in charge of the transition team. He was the candidate and elected president's representative in meetings held with the "national and international financial community". Palocci was the bridge between Cardoso and Lula's government, and occupied the post of Minister of Finance. Palocci supported the orthodoxy of the government, as did other members of PT and close

[6] The average GDP growth during Lula's first mandate was 2.6%, the same as in Cardoso's first government (See IBGE, old series). As the methods for calculating the GDP were altered, the growth rate for 2003-2006 was 3.4%, as opposed to 2.2% in the period 1999-2002. Thus, the difference was only 1% superior.

supporters of Lula.and firmly embraced orthodoxy, being the bridge between Cardoso and Lula's government, and occupying the post of Minister of Finance.

Palocci left the Ministry of Finance due to corruption claims during his administration as mayor of Ribeirão Preto, and for having participated in the lifting of one of his detractor's bank secrecy. In March 2006, Guido Mantega, economist and president of the Brazilian Development Bank (BNDES), was appointed to replace Palocci as the Minister of Finance. Palocci's dismissal resulted in the departure of some of the most orthodox members of his team and left space for a possible change. Nelson Barbosa[7] is in no doubt though that in the first three years of Lula's mandate (2003-2005) neoliberal ideas were dominant (Barbosa & Souza, 2010).

The entry of the developmentalist economist Guido Mantega into the Ministry of Finance in March 2006 entailed some alterations in the way macroeconomic policy was being conducted without, however, breaking the structure of the macroeconomic regime established during Cardoso's second term (1999-2002) entirely – the inflation target regime, primary surplus and floating exchange rate remained.

Changes included the interruption of privatizations, the resumption of public planning and investment with the Growth Acceleration Program (PAC, Programa de Aceleração do Crescimento), the change of the Brazilian Development Bank's (BNDES) role in the long-term financing of the Brazilian economy, the internationalization of Brazilian companies, the expansion in social protection policies and in access to bank credit and university places for lower-middle and worker classes.

Guido Mantega believed Brazil had instituted a new model, which he called "social-developmentalism". In his view, the model provided balanced growth (with inflation, public and external debts under control), and "converted the social axis in the new model of development", prioritizing three areas: "(a) growth with employment; (b) income generation and distribution; (c) expansion of social infra-structure", as originally proposed in the *Program of government 2002. Coalition Lula President. Brazil for all* (Anon. 2002, p.30). This growth would be led by the expansion of internal markets, the State planning and identifying strategic sectors, and creating rules to structure the private sector's action (Mantega, 2007).

The same strategy was maintained even in the presence of the recognizable impacts of the 2008 international economic crisis on the Brazilian economy, which were seen in three main aspects: the contraction of liquidity in international credit markets, the reduction of international trade and the more circumspect leadership of multinational companies hosted by Brazil (Pochmann, 2009, p. 63). Some indicators present a more accurate picture of the crisis' impacts, such as: i) depreciation of the Real (nominal 43% and real 18.5%, between August 2008 and March 2009) (Holland & Mori, 2010); ii) increase in unemployment rates (PME) from 6.8% in December 2008 to 8.8% in May 2009; iii) drop in trimestral GDP from 7.0% (2008/T3) to 1.0% (2009/T4), -2.7% (209/T1), -2.4% (2009/T2) and -1.5% (2009/T3); from 2008 to 2009, the trade balance fell by 22.7% in the total of exported value and by 26.2% in importations; in the same period, reduction of IDE from US$45bi to US$26bi (-425) (Sarti & Rupert, 2011, p. 19).

Some of President Lula's pronouncements concerning the international crisis and its relation to neoliberalism suggested the adoption of a post-neoliberal agenda to help the country move past both the former economic model and the international crisis. It was one in which the State would play a central role. On March 5, 2009, the President affirmed, "Neo-liberal ideology of minimal state sees its twilight… A new paradigm is emerging out of the ruins of

[7] Advisor of the President of Brazilian Development Bank's (BNDES) (2005-2006); Assistant Secretary of Macroeconomic Policy (2006-2007); Secretary for Economic Monitoring (2007-2008); and Secretary of Economic Policy (2008-2010) for the Ministry of Finance.

unregulated finances… The State is [not] the hindrance of development. It is, above all, its inductor”[8].

In June 29, 2009, Minister Mantega presented a summary of the measures taken by the government up to that point: expansionist monetary policy (overall the reduction of Selic rates, increase of public banks’ credit and reduction of interest rates) and active fiscal policy (Program *Minha Casa Minha Vida* R$28bi in subsidies and R$60bi in investments; Plan *Safra* 2009/2010: R$107bi); maintenance and expansion of social programs: *Bolsa Família*: R$12bi (2009), readjustment on minimum wage: R$ 20bi in economy (2009); Organic law of social assistance/Lifelong monthly income: R$19bi (2009). Besides the previous exonerations (reduction of income tax to individuals; temporary reduction of the taxes on industrialized products (IPI) to vehicles, white goods and building material; suppression of COFINS on motorbikes and PIS/COFINS on wheat, flour and bread), the minister announced new exonerations on capital assets and estimated a total renunciation of R$3.342 million for 2009[9].

Despite the negative GDP variation in 2009 (-0.3%), there was great optimism regarding the “renewed cycle of development” as the growth in GDP in 2010 was significant (7.5%). The generation of primary surplus was kept on the agenda throughout the entire second mandate: 3.3% of GDP (2007); 3.4% of GDP (2008); 2.0% of GDP (2009) e 2.7% of GDP (2010). Annual inflation rate was also stable: 4.46% (2007); 5.90% (2008); 4.31% (2009) and 5.91% (2010); and the annual basic interest rate (SELIC) fell from 13% (January 2007) to 10.75% (December 2010), keeping the real interest rate elevated compared to international standards[10].

However, the economic measures adopted to expand the internal market did not put the macroeconomic regime set to keep prices under control at risk. Macroeconomic policy still had as its main purpose the combat of inflation, as a change in this priority would have threatened the existence of the disinflationary-reformist coalition.

With 87% personal approval and 80% governmental approval[11], President Lula was able to elect his candidate, the former Minister of Energy and chief of staff, Dilma Rousseff as the new president of Brazil.

In the beginning of 2011, the annual inflation rate was 6%, close to the ceiling of the range goal (6.5%). Rousseff’s government adopted measures to keep the annual tax within the upper limit (6.5%), such as the increase of fiscal surplus from 2.7% of the GDP (2010) to 3.1% of GDP (2011) and showed great concern with public expenses, assuming the posture of “fiscal austerity”. The way fiscal measures were being used was evidenced in the sustained decrease in the annual basic interest rate, which was confirmed in the period between August 2011 (12.5%) and October 2012 (7.25%). It stayed unchanged until April 2013. Interest rate reduction would discourage the preference for liquidity and, by decreasing the opportunity cost, would stimulate economic agents’ productive investment. Lower interest rates would fight the appreciation of national exchange, making Brazilian products more attractive in international markets.

Nevertheless, ever since the first reduction in Selic in September 1, 2011 (from 12.5% to 12%

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[8] See: http://www.biblioteca.presidencia.gov.br/ex-presidentes/luiz-inacio-lula-da-silva/discursos/2o-mandato/2009/1o-semestre/05-03-2009-discurso-do-presidente-da-republica-luiz-inacio-lula-da-silva-durante-cerimonia-de-inauguracao-simultanea-de-escolas-tecnicas-federais-no-estado-do-rj/view

[9] See: http://fazenda.gov.br/divulgacao/apresentacoes/2009/p290609-pdf15/view

[10] The CB was severely criticized for having elevated the basic interest rate in the beginning of the international crisis in 2008 (it was 12.25%p.a. in July 2008, 13.75%p.a. in October 2008, and it was afterwards stabilized until January 2009), which would have contributed to the GDP’s negative variation in 2009.

[11] See: http://noticias.uol.com.br/politica/ultimas-noticias/2010/12/16/aprovacao-a-governo-lula-e-de-80-e-bate-novo-recorde-diz-cniibope.htm

per annum), the Rousseff government was severely criticized by mainstream media and economists linked to the financial markets and to PSDB. Gustavo Loyola, former president of the Central Bank (11/1992-03/1993; 06/1995-08/1997) [12], affirmed that "CB's credibility is at risk"; "the Central Bank has given in to political pressures and lost its autonomy as a result" [13]. Each fall in the basic interest rate was followed by criticism, causing the CB to issue, in May 9, 2012, an unusual "Bill from the Central Bank's President". In it, he averted the editorial printed in the newspaper O Estado de São Paulo ("Domesticated CB") and reaffirmed that "the Central Bank has assured and complete autonomy to take any monetary policy decisions…"[14].

Based on the "lack of control over inflation and public expenses", "catastrophist" news about the situation of the Brazilian economy negatively influenced the business and expectations environment, increasing uncertainty about the future of Brazilian economy in 2013. In that sense, the measures of the Rousseff government produced concrete effects in the real economy and have even been defined as "acts of economic terrorism"[15].

Moreover, elements that had allowed the recent expansion of Brazilian economy had run out. It is therefore "unlikely", "doubtful" or even "implausible" to imagine that the "state-oriented distributive developmentalism" will be able to support that "in a capitalist economy, the social protection criteria will always orient economic policy decisions", or that the specific conjuncture of 2005 ("increase in minimum wage, expansion of social expenditure and financial innovations (consigned credit and microcredit)", "could be repeated indefinitely". There was also an additional difficulty to "harmonize" "capitalization operations in public banks or increases in subsides offered to private investors" with "elevations in social expenditure" (Bastos, 2012, p.795-796).

A renewed expansive cycle could have begun through private investment in the infrastructure sector. Rousseff's government announced a large program of concessions for airports and highways, but "given the economic downturn, the private investment has shrank. There is a coordination, dialogue and negotiation problem. Projects are attractive, [but] it is necessary to further discuss with the private sector the issue of internal rate of return (IRR)" (Belluzzo, 2012). A wrestle between government and business regarding IRR would have contributed to the delay in projects, resulting in negative impacts in the growth of Brazilian economy[16].

The Central Bank concluded that inflation was accelerating and the basic interest rate was steadily increasing from June 2013 to December 2014, reaching 11.75% p.a. The annual inflation rate in the first term of Rousseff's government (2011: 6.50%; 2012: 5.84%; 2013: 5.91%; 2014: 6.41%) was, on average, a little more elevated than the one in Lula's second term.

Long-standing investments in the Brazilian economy are financed internally by the Brazilian Development Bank (BNDES) through the long-term interest rate (TJLP), which has gone up from 5 to 6% between 2011-2014. However, the increase in SELIC gave the impression that inflation was increasing, which allowed certain politicians to argue that the country had "out of control inflation" for political gain. They also argued that the only way to keep it under control was by increasing the interest rate.

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[12] See: http://www.brasil247.com/pt/247/economia/13813/Loyola-avalia-que-credibilidade-do-BC-'est%C3%A1-em-xeque'.htm

[13] See: http://www.psdb.org.br/banco-central-cede-as-pressoes-politicas-e-perde-autonomia/

[14] See: http://www.bcb.gov.br/textonoticia.asp?codigo=3528&idpai=noticias

[15] See: http://fernandonogueiracosta.wordpress.com/2013/06/04/atos-de-terrorismo-economico/

[16] It cannot be dismissed that China, Brazil's main commercial partner since 2009, decreased its pace of economic growth. Indeed, real variations in the Chinese GDP, from 14.2% (2007) to 10.4% (2010) and 7.7% (2012), negatively affected the growth of Brazilian economy.

As a result, a "renewed cycle of development" did not stand, the increase of the GDP in Rousseff's government being on average 2.1% a year (2011: 3.9%; 2012: 1.8%; 2013: 2.7%; 2014: 0.1%) – half the average growth in Lula's governments (2003-2010).

Thus, the attempt to disarticulate the disinflationary-reformist coalition and forge a new developmentalist coalition failed over the longer term. Domestic and international financial capitals – with the support of mainstream media – acted against changes to the growth-oriented macroeconomic regime. In the new coalition, this 'capital faction' would have a more active role in financing the economy and, consequently, would face greater risks, which are supposedly inherent to capitalism. In the current regime, focused on monetary stability and with part of the profit made by financial capital coming from public debt financing, there is a very low risk of default in the public debt. To keep the low risk, it is important to generate primary surplus and control inflation.

With her popularity shaken[17], hostile coverage in the media[18], a stagnating economy and growing inflation, President Rousseff ran for re-election in a hard-fought campaign. One can attribute her close victory (51.64% x 48.36%) to social and economic advancements under the PT governments, which are due to policies partly inspired by neo-developmentalist ideas. According to the campaign's discourse, those policies would be expanded in the second term. "The discourse in the campaign and the [president Rousseff's] pronouncement in the day of the victory evidenced a step towards the left" (Boito Jr., 2014), but the electoral support of PT and Rousseff's government were seriously shaken.

Once elected, President Rousseff named Joaquim Levy to the Ministry of Finance[19]. President Dilma's choice signalled a reorientation of the conduct of macroeconomic policy in order to regain "markets' credibility" and maintain the "investment grade". Joaquim Levy's presence is, therefore, a guarantor of this reorientation, which is based on the idea that fiscal adjustment would contribute to the reduction of inflation (via the reduction of aggregate demand), while controlling public debt and, reinforcing private investment as a result.

The new government was committed to generating a primary surplus of 1.1% of GDP; the establishment of more rigid criteria for administering unemployment insurance and pensions due to death; and a change in the criteria for the private financing of higher education and technical courses. For the first time, fiscal adjustment reduced PAC investments and compromised the budget of federal universities and research agencies.

Despite the elevation in taxes due to the end of some exonerations and the increase of aliquot in taxes and contributions, reduction of the deficit was not obtained, since the measures adopted by the new government ended up deepening the recession and significantly decreasing collection (R$29bi). President Rousseff's second mandate has also been characterized by constant elevations in the basic interest rate, which changed from

[17] In June 2013, a series of massive public demonstrations contributed to President Rousseff's decreasing popularity. Her government, which had an approval rate of 79% in March 2013, has showed an approval rate of 45% in July 2013. This rate was relatively stable until the end of her first mandate in December, with a maximum of 56%. See CNI-IBOPE, Government evaluation: http://www.portaldaindustria.com.br/cni/publicacoes-e-estatisticas/estatisticas/2015/04/1,42615/pesquisa-cni-ibope-avaliacao-do-governo.html

[18] For instance, selective corruption denunciations (only referring to PT and its allied parties) and the "economic terrorism". See: http://www.manchetometro.com.br/analises/candidatos/. The same continues even after Rousseff's second-round victory on October 26, 2014 (See: http://www.manchetometro.com.br/cobertura-2015/cobertura-2015-dilma-rousseff/).

[19] Economist who worked in IMF and in the Ministries of Finance and Planning in Cardoso's mandates. Secretary of Brazilian Treasury from 2003 to 2006 (neoliberal period in Lula's first government). From 2010 to the end of 2014, Joaquim Levy was the chief strategist and the director responsible for Bradesco Bank's asset manager, BRAM.

12.25% p.a. (January/2015) to 14.25% p.a. (December/2015), augmenting the debt.

On July 22, 2015, the government announced the review of the primary surplus goal to 0.15% of GDP (from R$66.3bi to R$8.7bi). The Minister of Finance Joaquim Levy said, "this is not a change in direction, but an adjustment in the sails because winds have changed… There is a structural imbalance between revenues and compulsory expenditures"[20]. In short, the move did not reflect a reversion of austerity policy. Rousseff's Government has concluded that its "credibility" would be increasingly threatened if the promise of generating a primary surplus of 1.1% of GDP was not kept. Yet, the government has augmented the contingency of discretionary expenditures from R$70.9 billion to R$79.4 billion[21]. The cutbacks in public expenditure, according to previsions in the budget, will be of almost R$80 billion.

The compromise with a reachable primary surplus goal, according to Levy, would demonstrate the "government's commitment with fiscal discipline, which is essential to the economy's rebound" [22]. From Joaquim Levy's perspective, "the fiscal adjustment is indispensable" for resuming economic growth and the appeal of counter-cyclical policies "was exhausted"[23].

The consequences of the adjustment were, as follows: a 3.8% GDP recession and an increase in unemployment, which climbed up from 4.3% in December 2014 to 6.9% in December 2015. The annual inflation rate rose from 6.41% (2014) to 10.67% (2015). The recession contributed to a primary deficit of R$119bi (2.0% of GDP) in December 2015. As a result of these economic problems Mrs. Rousseff had a disapproval rating of 82% in December 2015[24].

## 3.2 Industrial policy

Industrial policy during the PT's three first terms can be evaluated with reference to three initiatives: the Industrial, Technological and Foreign Trade Policy (PITCE, 2003-2007), the Production Development Policy (PDP, 2008-2010) and the Brasil Maior Plan (2011-2014). The first two were put into place during Lula's two terms (2003-2010), while the latter was rolled out during the first government of Rousseff (2011-2014).

PITCE was designed to increase innovation and the export capacity of Brazilian companies through the promotion of: a) technological innovation and general development of so-called "future-holder" activities, such as biotechnology, nanotechnology, renewable energy, biofuel and activities derived from the Kyoto protocol; b) external participation; c) industrial modernization; and e) productive capacity and scale. The sectors chosen as strategic options were: i) semiconductors; ii) software; iii) capital goods; and iv) pharmaceutical drugs and medicines.

A set of laws was approved to help put the measures featured in the PITCE into place. Innovation Law (Law n.10.973/2004) regulated the relations between universities and companies, and established, in article 1, "measures to stimulate innovation and technological and scientific research in the productive environment, with the purpose of

[20] See: http://www.brasil247.com/pt/247/economia/190015/Levy-diz-que-concordou-com-redu%C3%A7%C3%A3o-da-meta-fiscal.htm
[21] See: http://www.planejamento.gov.br/assuntos/orcamento/arquivos/relatorio_av_3_bi_2015_v2.pdf
[22] See: http://jornalggn.com.br/noticia/governo-revisa-meta-fiscal-e-aumenta-contingenciamento
[23] See: http://jornalggn.com.br/noticia/levy-defende-ajuste-e-fala-em-esgotamento-das-politicas-anticiclicas
[24] See: CNI-IBOPE, Government evaluation: http://arquivos.portaldaindustria.com.br/app/cni_estatistica_2/2016/03/30/31/Pesquisa_CNI-IBOPE_Avaliacao_do_Governo_Dezembro2015_Relatorio_de_divulgao_v3.pdf

enabling and obtaining technological autonomy and industrial development" (art.1). The biosafety law (Law n.11.105/2005) established, in article 1, "safety regulations and monitoring mechanisms concerning the construction, cultivation, production, handling, transportation, transference, importation, exportation, storage, research, commerce, consume, liberation in environment and disposal of genetically modified organisms (GMO) and its derivatives, having as guidelines the stimulus to scientific advancement in the areas of biosafety and biotechnology, protection of life and health of humans, animals and plants, and the compliance with the principle of precaution to environmental protection". Another approved law was *do Bem* (Law n.11.196/2005), granting fiscal incentives to companies through the reduction of costs related to R&D through taxes on profits.

Presented as the complement to PTICE, PDP had featured four goals to be reached in 2010: 1) increase fixed investment by 21% of the GDP; 2) elevate private R&D expenditures to 0.65% of the GDP; 3) expand the participation of Brazilian exports to 1.25% of the world's exports; 4) increase the number of small and medium-sized exporting enterprises by 10%[25].

Due to the impacts of the international economic crisis of 2008, results in 2010 were below those that had been expected: investment rates reached 19.5% of GDP (old series); private expenditure in R&D was 0.58% of the GDP; and the number of exporting small and medium-sized enterprises fell by 16%. The only achieved goal was the increase of Brazilian exports as a percentage of world exports. These increased their share to 1.36% of the global total[26].

PMB also focused on "exoneration of investments and exportations; expansion and simplification of resources for innovation; refinement of the innovation regulatory framework; stimulus to the growth of small and micro businesses; strengthening of trade defence; creation of special regimes to add value and increase technology in production chains; and regulation of governmental purchasing laws to stimulate production and innovation in the country"[27].

Industrial policies in PT governments were supported with substantial resources. Between 2003-2004, BNDES lent R$955 billion to the selected sectors under PTICE, PDP and PBM. This value represents 83% of the bank's disbursement in the period, as seen in Table 1.

Table 1: Disbursement for PITCE-PDP-PBM sectors, 2003-2014 (Jun). Running R$ billion.

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (Jun) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | 28.0 | 32.5 | 41.6 | 47.1 | 96.9 | 80.5 | 90.3 | 122.6 | 119.2 | 121.6 | 150.2 | 64.7 | 955.2 |
| B | 33.5 | 39.8 | 47.0 | 51.3 | 64.9 | 90.9 | 111.4 | 143.4 | 138.9 | 156.0 | 190.4 | 84.1 | 1151.6 |
| C | 83% | 81% | 89% | 92% | 88% | 89% | 81% | 85% | 86% | 78% | 79% | 77% | 83% |

Source: Ferraz et al 2015, p. 78
A: Total disbursement for selected sectors in PTICE, PDP and PMB.
B: Total BNDES disbursement.
C: A/B

[25] See: http://www.desenvolvimento.gov.br/conferencia-apl/modulos/arquivos/IsmarFerreira.pdf
[26] See: http://abdi.com.br/Relatrios/Resumo%20Executivo_vers%C3%A3o%20final.pdf
[27] See: http://www.brasilmaior.mdic.gov.br/wp-content/uploads/cartilha_brasilmaior.pdf. For goals in Brasil Maior Plan, see: http://www.brasilmaior.mdic.gov.br/conteudo/155.

However, Brazilian industry did not only receive loans from BNDES on favourable conditions. Tax exemption policies and tax waiver were among the measures allowed for in PBM. Indeed, the exemption in payroll alone was estimated to be R$154 million (2011), R$3.822 billion (2012), R$16.492 billion (2013) and R$21.607 billion (2014)[28]. Moreover, other growing investments internally carried out by Petrobras on the production of ships, and platforms, and the construction and refurbishment of refineries, machines and equipment, and hiring and training of the labour force, increased from R$26.5 billion (2006) to R$83.5 billion (2014)[29].

PT governments perceive the participation of industry in economic growth as important. This being the case, the governments wanted to rehabilitate the State's role in planning and inducing investment in the industrial sector. Governmental initiatives included a strategy, according to which Brazilian industrial standards should advance towards the dominant one. Investments in innovation were crucial for the success of this catching up process and, in that sense, finance, exoneration and tax waiver were widely applied.

The results of the government's industrial strategy were however rather controversial. On one hand, PT's industrial policy was effective with regards to backward linkages – mainly in the Petrobras' case – and in the sense that it marked out the State's role in development. On the other hand, the contribution of the processing industry to the GDP declined– from 16.9% (2003) to 10.9% (2014) (Fiesp, 2015), and the mobilization of private capital to increase the investment rate did not occur to any great extent. The investment rate was no larger than 20% of the GDP for the entire period[30].

What could have gone wrong? According to Diegues (2015), the incorporation of orthodox neoliberal premises – according to which the problems in Brazilian industry are due to the "elevated Brazil risk" (credit costs, labour costs, tax costs, energy and transport costs, etc.) – by a neo-developmentalist-inspired industrial policy had negative impacts, since exoneration and tax waiver policies weaken public accounts in times of low growth (2010-2014). Secondly, failure could be related to the "Brazilian disease", i.e. "structural reconfigurations in industry leading towards regressive specialization and de-industrialization in parallel with the emergence of strategies assuring accumulation of the capital invested in the industrial domain… increasingly untied to the strictly productive performance… as treasury and importation activities" (Diegues, 2015). The industrial policy was also not strong enough to face the immense challenges related to the fierce international competition at a moment of international economic downturn. Finally, the State's inability to play "the main role in public investment as inductor of corporate action" was also evidenced by the stalling of industry after the introduction of the policy (Diegues, 2015). Belluzzo meanwhile suggests that policies of in favour of the appreciation of the Real in relation to the dollar as an instrument to control inflation put a great part of the effort shown by industrial policy to deepen the industrialization standard at risk. Thus, "exoneration policies and the subsidized credit for industry are compensatory mechanisms which have not solved the issue of competitiveness loss", meaning, "they are part of a highly defensive and inefficient industrial

[28] See: http://www.brasilmaior.mdic.gov.br/images/data/201412/8a66095ca37d2ee417d098901ffcd22b.pdf
[29] See: http://www.investidorpetrobras.com.br/pt/relatorios-anuais/relatorio-de-administracao
[30] In March 2015, the Instituto Brasileiro de Geografia e Estatística (IBGE) adopted a new method for the evaluation of domestic accounts. The reviewed data for 2010 and 2011 showed an increase in the ratio between investment rates and GDP from 19.5% to 20.6% (2010) and from 19.3% to 20.6% (2011). Investment rates in 2012 and 2013 were not reviewed (18.2% and 18.4%, respectively) and the investment rate of 19.2% of the GDP (2014) was calculated in accordance to the new method. The old series was kept in the evaluations to allow a more appropriate comparison.

policy" (Belluzzo, 2014). Therefore, if the making of an industrial agenda and policy with positive impacts in the generation of employment and income signalled an attempt to break with neoliberalism, those efforts had strict limits in relation to more general effects produced by the macroeconomic policy supported by the disinflationary-reformist coalition.

One can raise the question: wouldn't a neo-developmentalist coalition that supported the expansion of an internal mass market via the increase of wages and production be in the economic interest of the national bourgeoisie? For what reasons wasn't a policy that could benefit the "national bourgeoisie" able to produce effective support? One can think of some explanations. The national bourgeoisie is an extremely heterogeneous sector, which would lead to fragmented political action. After all, does it produce for internal or external markets? What is the effective weight of the dollar in the production costs? What is the scale? Has neoliberalism increased or reduced its profit margin? It is plausible to assume that the "national bourgeoisie" is not a "rational actor" who is able to identify its interests clearly and act "rationally" to pursue them. In that sense, it would be ideologically influenced by neoliberalism.

## 3.3 Income and Social Policies

The economic team's conception of social policy in Lula's first mandate reproduced the thesis defended by the World Bank in the preceding two decades. In short, it defended the idea that the government spent a sufficient amount on social welfare, but in the wrong areas, benefiting the non-poor. Besides "responsible macroeconomic management", the alternative to correct this distortion would rely on "generating primary surplus, with the purpose of controlling public debt and inflationary process, as well as other types of expenditure in central Government, particularly with infrastructural investments" (BRASIL, 2003b).

The proposal was to shift available resources, reducing costs of retirement and pensions (focused on the richest part of the population, the "privileged ones") and increasing expenditure with basic income programs, which targeted the poorest classes. The alternative to increase consumption was augmenting the offer of credit. This justified both social security reform and the option for compensatory policies, as seen in the examples of Fome Zero[31] and Bolsa Família.

The program Bolsa Família[32] is directed at: families with a monthly income of up to R$77,00 per person (R$70,00 up to April 2014); families with incomes from R$77,01 to R$154,00 per person including the benefit values of Program Bolsa Família and that are composed by children aged 0 to 6; families with a monthly income of R$77,01 to R$154,00 per person, with pregnant women, nursing mothers, children aged 0 to 12 and teenagers up to 15 years old; families with no income (R$0,00) to R$154,00 per person with 16 or 17 year-old teenagers. Unemployment is not part of the eligibility criteria.

In exchange for support, children and teenagers must be subscribed to and going to school and have all their vaccines up-to-date. Each family receives R$170.01on average. However, 60% of families receive less than average; 10% of families receive more than R$300.00 and less than 1% receives more than R$500.00. The program benefits about 14 million families or approximately 50 million people, and it costs 0.5% of the GDP.

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[31] Fome Zero, the main window into the Lula government's intentions during its first year, is an ensemble of emergency programs supporting food consumption; distribution of food baskets to landless groups', indigenous and quilombola communities; incentive to family agriculture; expansion of school meals; child maternal nutrition; installation of popular restaurants and food distribution places. This program was severely criticized in 2003 for lack of resources, delays in provision and difficult implementation, and ended up being incorporated in Bolsa Família.

[32] See: http://www.mds.gov.br/bolsafamilia

There was an important increase in the minimum wage during PT governments. In April 2002, the minimum wage was R$200.00, allowing the acquisition of 1.02 basic food basket. In January 2015, the value was R$788.00, corresponding to 2.22 basic food baskets. In real terms, the increase was of 76.54%[33].

There was also a significant drop in unemployment rates, from 12.6% (Dec. 2002) to 4.8% (Dec. 2014) and an immense increase of readjustments in salaries via collective agreements in professional categories above inflation (INPC). In 2003, only 18.8% of readjustments were above the inflation rate, 23% of agreements matched the inflation rate and 52.8% were below it. In 2014, 91.5% of readjustments were above the inflation rate, 6.1% matched it and 2.4% were below the rate[34].

Employment generation was significant as well: 6.47 million (2003-2006); 8.91 million (2007-2010); 5.28 million (2010-2014). Creating 20 million jobs had considerable consequences: informality dropped from 52.5% in 2002 to 32.5% in 2014[35]; Gini coefficient decreased from 0.589 (2002) to 0.527 (2013)[36]; and the participation of labour in national income has elevated from 31.1% of the GDP to 38.6% of the GDP (2011)[37].

Despite the neo-liberal aspects of the programme - the targeting - the Bolsa Família program's scale – which reaches about ¼ of Brazilian population – produced significant results. On one hand, it has reduced diarrhoea-related infant mortality by 46% and malnutrition-related infant mortality by 53%[38]. It also has had a multiplying effect of 1.78% of GDP – meaning, for each R$1 in the program, the GDP grows R$1.78. This strongly increased consumption, mainly in the Northeast region[39].

Real increases in minimum wage contributed to the elevation of wages in the economy. Moderate economic growth increased formalization in the labour market, enabling the growth of wage readjustments above inflation rates and the increase in employment. Those measures have altered PT's electoral base of support, previously constituted solely by urban trade-union workers (from both private and public sectors, with greater incidence between literate middle-class) and extending it to general workers, especially the ones living in the worst conditions (Singer, 2012).

## 4 Conclusion

Coalitions formed in society are important because they support the adoption of public policies. As I have pointed out in this paper, the developmentalist coalition supported a set of policies that led to the industrialization of the Brazilian economy. When this coalition entered into a crisis, it was replaced by a disinflationary-reformist coalition, which supported the application of disinflationary policies and inflation control, as well as liberalization reforms. This coalition remained very active in PT governments,

[33] See: http://www.dieese.org.br/notatecnica/2015/notaTec143SalarioMinimo.pdf
[34] See: Evaluation of salary readjustments' negotiations, available on: http://www.dieese.org.br/sitio/buscaDirigida?tipoBusca=tipo&valorBusca=estudos+e+pesquisas
[35] Approximated values are available on http://www.ipea.gov.br/portal/index.php?option=com_alphacontent&Itemid=144. The greatest reduction was on the secondary sector, as seen on http://www1.folha.uol.com.br/mercado/2014/12/1557555-varejo-puxa-queda-da-informalidade.shtml
[36] Data from http://www.ipeadata.gov.br
[37] See: http://brasildebate.com.br/participacao-dos-salarios-no-pib-aumenta-a-partir-de-2005/
[38] See: http://www.mds.gov.br/saladeimprensa/noticias/2015/julho/ministra-francesa-conhece-brasil-sem-miseria
[39] See: http://jconline.ne10.uol.com.br/canal/economia/nacional/noticia/2013/10/23/as-varias-faces-economicas-do-bolsa-familia-no-brasil-102387.php e http://diariodonordeste.verdesmares.com.br/cadernos/regional/bolsa-familia-aquece-comercio-1.58332

especially with regards to macroeconomic policy, which has never really moved away from the economic ideas that unify that coalition. The austerity policies adopted by the government in 2015 are an example of the ongoing importance and political weight of this coalition.

However, the governments of PT, backed by a new coalition, the neo-developmentalist, sought to reorient industrial, social and income policies. In the case of industrial policy, the effects of reform were limited by the maintenance of a disinflationary macroeconomic policy based on the appreciation of the Brazilian currency (real). As for social and income policies there was undeniable progress, despite these policies have always been under attack from the disinflationary-reformist coalition.

In sum, industrial, income and social policies adopted during PT governments represented important advances in relation to the previous PSDB governments (1995-2002). However, by prioritizing and keeping the stability-oriented macroeconomic regime, PT has never in fact abandoned the disinflationary-reformist coalition. Furthermore, when Rousseff's government signalled the possibility of embracing the "Brazil Agenda", a group of liberalizing measures inspired by supply side economics, they threatened to bury any initiative that would lead to a strengthening of the neo-developmentalist coalition. Choices made in favour of the Brazil Agenda at the beginning of president Rousseff's second term put the last 12 years of advancements at risk, as well as the cohesion of the broad electoral coalition that has supported PT governments since the ascension to power over a decade ago.

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