Growth, Distribution, and Crisis

The Workers' Party Administrations

by
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The economic policies of the governments of Lula da Silva (2003–2010) and Dilma Rousseff (2011–2016) combined orthodox measures with distinctive pro-growth measures that, although they deviated from neoliberalism, cannot be called "developmentalist" either. They lacked a long-term strategy for reversing the deindustrialization of the country or advancing to a new technological paradigm. They did, however, have a historical commitment to income redistribution that was largely implemented. The broad social pact proposed by Lula acknowledged the hegemony of financial capital, and its contradiction was that it protected the hegemonic group by means of monetary and fiscal policies that required growth in the gross domestic product, a favorable balance of payments, and a gap between wages and productivity. When these conditions no longer held, Rousseff responded to the crisis with a "new macroeconomic matrix" that amounted to the abandonment of Lula's class-coalition pact.

As políticas econômicas dos governos de Lula da Silva (2003–2010) e Dilma Rousseff (2011–2016) combinaram medidas ortodoxas com distintas medidas pró-crescimento que, embora se desviassem do neoliberalismo, também não podem ser chamadas de "desenvolvimentalista." Eles careceram de uma estratégia de longo prazo para reverter a desindustrialização do país e avançar para um novo paradigma tecnológico. Eles tinham, no entanto, um compromisso histórico com a redistribuição de renda que foi implementada em grande parte. O amplo pacto social proposto por Lula reconheceu a hegemonia do capital financeiro, e sua contradição foi que protegia o grupo hegemônico por meio de políticas monetárias e fiscais que exigiam crescimento do produto interno bruto, uma balança de pagamentos favorável e uma lacuna entre salários e produtividade. Quando essas condições não mais se mantiveram, Rousseff respondeu à crise com uma "nova matriz macroeconômica" que resultou no abandono do pacto de coalizão de classes de Lula.

Keywords: *Lula administration, Rousseff administration, Developmentalism, Neoliberalism, Brazilian economy*

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The governments of Lula da Silva (2003–2010) and Dilma Rousseff (2011–2016), from their inception, generated controversy with regard to the focus of their economic policies. Lula's 2002 "Letter to the Brazilian People," launched during the presidential campaign in June 2002, was understood as a way of "calming the markets," but at the same time its ideas drew away from the historical principles of the Partido dos Trabalhadores (Workers' Party—PT). The economic policy of Antônio Palocci of the Ministry of Finance and Henrique Meirelles of the Central Bank confirmed the promises of the letter. The orthodox economic policy of the government of Fernando Henrique Cardoso, based on inflation targeting and characterized by high real interest rates, a positive primary result in public accounts, and an appreciated exchange rate, was maintained as a basic guideline for macroeconomic policy. This allowed several observers to stress the continuity of economic policy with a strong neoliberal focus between the two governments (Assis, 2005; Carvalho, 2007; Paula, 2005; Paulani, 2003; 2005; 2007). Others, pointing to the high growth rates of the Lula period and the decline of the Gini index, began to interpret the period, especially its second term, as a resumption of developmentalism (for example, Anderson, 2011; Bastos, 2012; Belluzzo, 2009; Cardoso Jr., 2011; Cervo, 2009; Costa, 2015; Herrlein, 2011; Nakano, 2010; Novy, 2009a; 2009b). Later works sought to overcome the polarization of orthodoxy and developmentalism. Erber (2011) pointed out that in Lula's government there were two "pacts" or worldviews, a more orthodox "strict institutionalist" view and one called "neodevelopmentalism," both with "distinct analytical hard cores . . . [and] therefore ontologically conflicting." Morais and Saad-Filho (2011) similarly argued that Lula's policy was "hybrid" and even included policies that were close to the "new developmentalism" formulated by Bresser-Pereira (2011). Fonseca, Cunha, and Bichara (2013) argued that, although there were aspects of both rupture and continuity with Cardoso's policy, there was insufficient reason to interpret this as a return to developmentalism.

Regarding Dilma Rousseff's government, the controversy was no less intense. In August 2011 it abandoned policies that had been in place since the Cardoso administration, forcing the Central Bank to lower the interest rate and devalue the exchange rate. Our hypothesis is that this reorientation represented more than a mere change in economic policy. It was a point of inflection of these governments, since it meant the abandonment of the class-coalition pact signed by Lula with segments of the business elite. At the start of her second term, Rousseff sought to rebuild alliances established by Lula in 2002, but the conditions for doing so no longer existed. Regardless of economic policy choices, the lack of material, economic, and political foundations made the continuity of the alliance infeasible. The economic and political scenario from 2015 on made it impossible to reconcile orthodox economic policies with state redistributive interventionism.

The following questions arise: Can Rousseff's reorientation of economic policy, sometimes called the "new macroeconomic matrix," be considered the abandonment of orthodoxy in favor of a developmentalist option? What were the reasons for it? Which bourgeois sectors supported the PT governments, and why did they move away?

INTERVENTIONISM AND DEVELOPMENTALISM

To examine whether the two governments' policies may be associated with developmentalism, we need to clarify what this means. "Developmentalism" is used in many senses, and this ambiguity fosters a certain conceptual confusion. Perhaps the biggest problem is the confusion of developmentalism with interventionism. The tendency has been established, especially among mainstream writers and the Brazilian media, to treat any state intervention as developmentalism and, by extension, pejoratively, as "economic populism." However, developmentalism is a particular form of interventionism, not to be confused with mere crisis-reactive policies aimed at stopping Keynesianism cycles. Additionally, it has historically represented a set of measures for overcoming underdevelopment and therefore a strategy or guide to action for overcoming a historical-structural condition. Thus, developmentalism, even with interventionist features (such as social democracy and a labor movement), must not be confused with either Keynesian countercyclical policies or socialism, since it is not aimed at overcoming capitalism and is an economic project based on industrialization within the institutional framework of this economic system or mode of production.

We adopt a portion of Fonseca's (2014: 60) definition: "Developmentalism is an economic policy formulated, deliberately or not, and/or implemented by governments (national or subnational) to transform society to achieve the desired ends, through the growth of production and productivity, under the leadership of the industrial sector, especially to overcome its economic and social problems, within the institutional frameworks of the capitalist system." This definition was developed through a method inspired by Sartori (1970; 1984) that is considered an alternative to the development of ideal models in that it requires that the attributes of a concept be extracted from the specialized literature itself—the use of theoretical terms by a community of scientists. Fonseca's examination of the application of the concept "developmentalism" to 34 governments in eight Latin American countries revealed that the core attributes—those common to all uses of it—were (*a*) the defense of a national project or a strategy aimed at overcoming underdevelopment, (*b*) deliberate state intervention, and (*c*) industrialization, which provides opportunities for a greater convergence of income, productivity, and technological stage with the richer and more developed countries. For an economic policy to be considered "developmentalist" it must have these three attributes. Concepts of course change over time, but this involves the inclusion or exclusion of attributes without affecting the core.

As used here, then, the term "developmentalism" applies to deliberate, consciously executed policies with a well-defined purpose, as anticipated by Latin American structuralist thinkers such as Raúl Prebisch and Celso Furtado. The redistributive attributes sometimes associated with developmentalism, such as income redistribution, reduction of inequalities, agrarian reform, and even democracy, vary with the country's historical experience, and research has shown that they seldom appear in Latin American developmentalist experiments. Several governments regarded as developmentalist not only have not redistributed income but have defended its concentration, and many of them have been dictatorships.

DEINDUSTRIALIZATION AND INCOME DISTRIBUTION

Returning to Lula's government, the absence of a project that could be called "developmentalist" is now clear. The PT never programmatically defended protecting industrialization as a way to overcome underdevelopment. This proposal was, as a rule, regarded as outdated, associated either with the import-substitution-industrialization stage or populism or even the military regime and income concentration of the "miracle" of 1968–1973. Consequently, developmentalism produced an industrialized but excluding country that did not even establish an "autonomous national capitalism," since the rule was to associate with or submit to foreign capital. The PT from its foundation had its socialist currents and was averse to defending "reformist" or "social-democratic" economic proposals, and this made it difficult to formulate an economic project, developmentalist or otherwise. The meeting point of all these currents was the confrontation of social inequalities, from which proposals such as the expansion of democracy, popular participation, and agrarian reform were developed. Thus there was a project for the country that assumed that there would be intervening economic policies to execute it, which included attributes *a* and *b* of the above-mentioned core, but this project did not address growth or development. Our hypothesis is that the absence of a project to reverse the deindustrialization of the country is the main obstacle to characterizing PT governments as "developmentalist." Although government documents expressed an awareness of both social inequalities and the decline in the position of industry, the measures actually taken were basically related to inequalities.[1]

Although three versions of a long-term industrial policy can be identified, the short-term priorities of macroeconomic policy and fluctuations in the international economy have always been shaped mainly by countercyclical policies, redistributive project aids, and past investment patterns in commodities and industrial sectors of low and medium technological intensity. In Lula's governments, two industrial policies were launched: the 2004 Industrial, Technological, and Foreign Trade Policy and the 2008 Productive Development Policy. Under Rousseff's government there was the 2011 Greater Brazil Plan. Deindustrialization had already begun in the 1980s and continued and intensified under the PT governments (Figure 1). Lula started 2003 with industry representing 16.9 percent of the gross domestic product (GDP), and Rousseff ended 2015 with industry representing 11.4 percent and a decline of 5.5 percentage points in GDP. Regarding the participation of Brazilian industry in global industry, the decline registered during PT governments was greater than the one between 1990 and 2002, a period usually connected with the hegemony of neoliberal ideas. In 1990 Brazilian industry was 1.97 percent of world industry and in 2002 it was 1.90 percent, but in 2015 it was 1.43 percent. Under Rousseff's government, deindustrialization was more pronounced than under the two Lula governments. The proportion of the GDP represented by industry declined approximately 4 percent between 2011 and 2015, and its proportion of world industry was reduced to 0.2 percent. Accordingly, it can be argued that the deindustrialization that started in

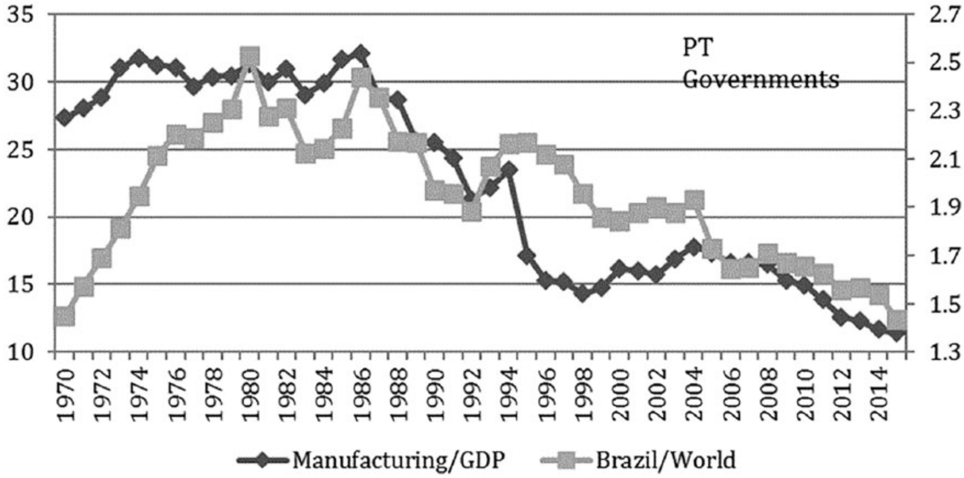

Figure 1. Percentage of manufacturing in Brazil's GDP (*left axis*) and proportion of world industry (*right axis*) from 1970 to 2015 (data from UNCTAD, 2015).

the mid-1980s and intensified in the 1990s maintained its continuity under the PT governments and that the relative stagnation of Brazilian industry in international terms was even more striking than in the 1990s. This relative stagnation is apparent from its value added between 2003 and 2015 in constant U.S. dollars, which was 126 compared with 167 for the world, 298 for Asia, and 742 for the BRICS (UNCTAD, 2015).

With regard to the redistribution of income, the governments of Lula and Rousseff certainly had a project in this sense. The country's historical pattern of growth had always intensified income concentration, and there was a steady decline in this trend after 2003, the beginning of Lula's first administration (Figure 2).

When Lula took office, he sought to honor the promise to reverse inequalities (not only of income but of gender and race) but lacked an actual economic project. The rejection of neoliberalism was agreed on by all, but there was no agreement on what would replace it. After several defeats, and seeking to expand its range of alliances, the business sector began by inviting José Alencar, an entrepreneur in the textile industry, to become a vice presidential candidate. This could be interpreted as an alliance with sectors of the local bourgeoisie in a pro-production, industrialist, developmentalist, and anti-neoliberalism agenda, but the "Letter to the Brazilian People" indicates the opposite: the commitment to maintain the economic policy guidelines of the Cardoso government reveals a recognition of the hegemony of financial capital and a willingness to include it in the power bloc. This meant nothing less than the abandonment of historical principles of the party such as aversion to the "Dutch disease" and rejection of internal and external debt. During his campaign Lula had said that he would audit such debts. That the letter was not just a list of intentions or the vain promises of a candidate is apparent from the fact that the economic team, including many orthodox economists,

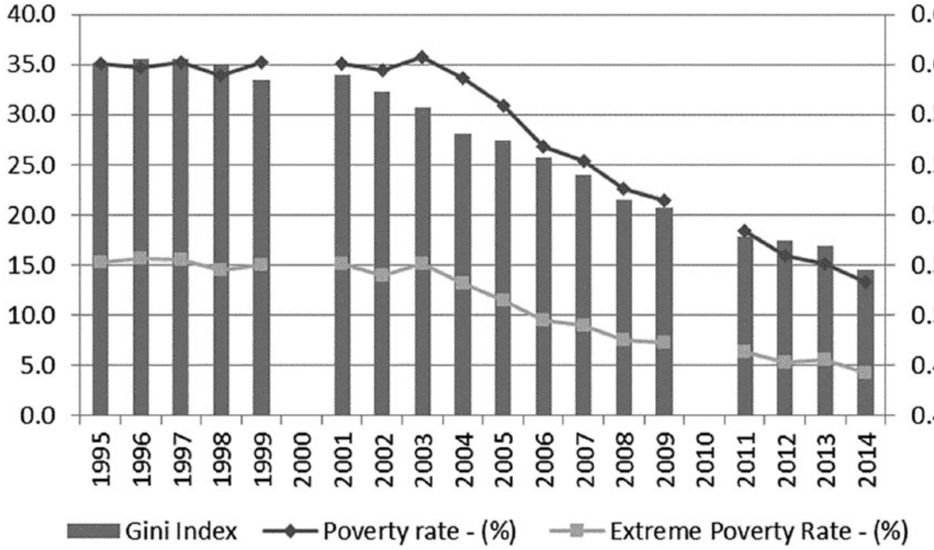

Figure 2. Development of poverty and extreme-poverty rates (*left axis*) and Gini coefficient (*right axis*), 1976–2014 (data from IPEA, 2016).

executed it faithfully, including maintaining the autonomy of the Central Bank (by political decision, since the Constitution did not guarantee it). The use in both the first and the second government of two indispensable instruments for the execution of development policies and for dealing with deindustrialization—exchange rates and interest rates —makes it impossible to interpret the relatively high growth rates of the latter as a result of a developmentalist project. A more reasonable hypothesis is a cyclical expansion after several years of low growth rates enabled by the favorable international situation (Chinese demand), the expansion of family loans (indebtedness), and the significant real growth of the minimum wage, which brought about an expansion of domestic demand for goods and services. The minimum wage as an index of pensions and social security played an important role in maintaining the historical commitment to income redistribution and opened the way for what Singer (2012) has called "Lulism."

In the evolution of the minimum wage and the unemployment rate we see again an inflection point from the beginning of Lula's administration in 2003 for four variables (Figure 3). The minimum wage in the Cardoso government had increased from R$70 to R$200 between 1995 and 2002, and under the PT governments its growth was greater than that under previous governments, reaching R$788 in 2015. The US$100 mark for the minimum wage has always been emblematic and was achieved in the Cardoso governments at the very beginning. In 2005, under Rousseff's government, it reached its highest historical value, US$333.The purchasing power parity of the minimum wage approached US$400 in 2014, evidencing the improvement in the consumption pattern achieved by the working class under the PT governments. Along with this there was a sustained drop in the unemployment rate until the end of 2014, when it reached its historically lowest level of 4.8 percent.

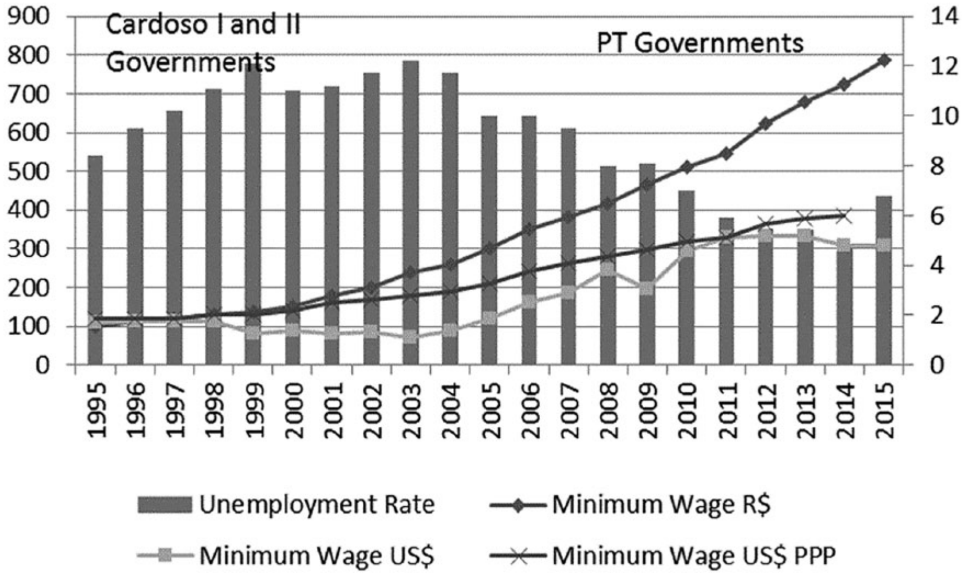

Figure 3. Evolution of the minimum wage in R$ and US$ (*left axis*) and of the unemployment rate (*right axis*) (IPEA, 2016).

ROUSSEFF'S GOVERNMENT AND THE "NEW MACROECONOMIC MATRIX"

With regard to the "new macroeconomic matrix" of Rousseff's government, the initial question is whether it makes sense to interpret the change as overcoming neoliberalism and orthodoxy in favor of developmentalism. First, because it represented the abandonment of the economic policy that had been implemented since the Cardoso administration, it meant limiting the Central Bank's autonomy, and this was a major change. Second, much of the literature, both favorable to and critical of the measures, defends its developmentalist character. The "new matrix" did not repeal the inflation targeting system, but it did make it flexible. It forced the Central Bank, even when anticipating rising inflation, to lower the interest rate and, consequently, raise the exchange rate. The SELIC interest rate fell from 12.50 percent in August 2011 to 7.25 percent at the beginning of 2012, reaching its lowest historical real value since the 1980s. No less relevant, the exchange rate, which was R$1.56 to the U.S. dollar in August 2011, underwent devaluation, reaching R$2.63 to the dollar at the end of Rousseff's first term, in 2014. It is reasonable to suppose that these measures combined were perceived by financial capital and the large domestic internationalized groups as not fulfilling commitments, especially those related to liabilities in dollars in their portfolios. At the same time, the Banco Nacional de Desenvolvimento Econômico e Social (Brazilian Development Bank—BNDES) was encouraged to expand credit and financing to particular sectors of the economy through vertical policies. Thus, there is no doubt that the measures of the "new matrix" altered the fixed directives approved by Lula and represented an increase in interventionism and a move

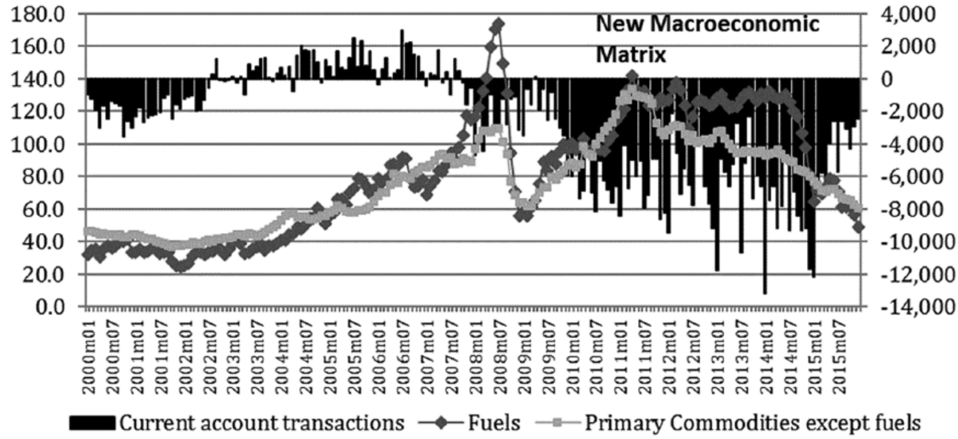

Figure 4. Index of international prices of fuels and primary commodities (2010 = 100) (*left axis*) and current-account balance in US$ millions (*right axis*) (data from the Netherlands Bureau of Policy Analysis and IPEA, 2016).

away from neoliberalism. These measures cannot even be considered a variant of neoliberalism.

However, although some attributes associated with developmentalism and a reorientation of economic policy toward stimulating growth can be observed, once again we do not see a solid basis for describing this as "developmentalism." Contrary to the long-term strategy that marks developmental interventionism, the measures were adopted as a reaction to a crisis expressed by a slowdown in growth and as a way of confronting an international situation that had begun to reverse the commodities boom of Lula's golden years. Commodities prices increased until mid-2011 and then decreased, worsening the deficit of current-account transactions (Figure 4).

It was this situation, from 2011 on, that forced the government to exert pressure on the Central Bank to lower interest rates and devalue the currency. There is no doubt that measures such as these could have reactivated the industrial sectors both by causing a relative price change that was favorable to domestic production and by fostering export-orientation, as in Bresser-Pereira's (2016) new developmentalism, but the exchange-rate devaluation also had a negative impact on industrial and financial companies whose costs depended on external suppliers and those that had loans in dollars (a condition that was widespread because of the appreciation of the real). Thus the effect of the new economic policy on some sectors of business was the trigger for eliminating others, chipping away at the alliance established by Lula in 2002. Most important, however, is that these changes in economic policy occurred as a reaction to the perceived cyclical deceleration rather than as a development strategy. Neither their motivation nor their results can be associated with developmentalism. They did not reverse deindustrialization or activate aggregate demand in accordance with the Keynesian model, the government stimulus being focused much more on the supply side (Fonseca, 2016; Paulani, 2017). The government concentrated not primarily on public expenditures (as Brazilian governments of the "developmentalist era" had historically done) but on lowering costs and stimulating private groups as a way of fostering growth. In a sort of "supply-side economics," energy tariffs decreased and particular sectors received abundant credit, reduced taxes, exemptions, and subsidies (later pejoratively termed "grants for businesses"). It seems to us premature to describe as developmentalist, as does Singer (2015: 44), programs such as Greater Brazil Plan, which opened lines of financing at the BNDES and reduced taxes on industrialized products of microentrepreneurs, and the Inovar-Auto program for the protection of the automobile industry. Both, on the contrary, seem more like responses to the pressure exerted by the sectors themselves (both entrepreneurs and workers, who felt threatened with losing their jobs).

The minimum requirement for being designated "developmentalist" would be that such interventionism start with a diagnosis of the low growth of the Brazilian economy in recent decades and its regressive specialization and deindustrialization and the formulation of a plan with goals and identification of the instruments to be applied.[2] For example, such a plan should at least point out ways to favor new branches of greater technological density, on the Schumpeterian model, so as to fill the gaps of Brazilian industry in emblematic manufacturing sectors of the technological revolution based on microelectronics or even link the choice of "national champions" to emerging sectors of the new advanced manufacture or "Industry 4.0." Programs like Inovar-Auto, on the contrary, ironically invoke a "national developmentalism inside-out," fostering polluting multinational industry and the technology of the past.

The policies of the new matrix that did correspond to a developmentalist strategy were not negligible, but they were sectoral, applying to the shipbuilding industry, the Pre-Salt, ports, and electric power, for which the government sought to establish regulatory frameworks with a long-term impact, both technological and institutional, that would protect areas for national capital and allow state control and supervision as part of a strategic vision. In tribute to the above-mentioned interpretation of Erber (2011), it was in these sectors that the "neodevelopmental convention" was able to assert itself and achieve a certain balance of forces with regard to a "limited institutionalism."

FINANCIAL HEGEMONY AND CLASS COALITION: THE PACT AND ITS CRISIS

It is now appropriate to reply to the two questions asked earlier: what led the government to change its economic policy in 2011 and which sectors of capital backed it and then moved away. Initially, it is necessary to mention the difficulty of identifying the classes, groups of classes, and social sectors that constitute the bloc in power and determining which of them holds hegemony.[3] First, that state policy favors certain sectors of the bloc and plays a mediating role does not mean that it excludes others. There is no clear dividing line. Listing the measures implemented by the government in favor of a particular sector does not mean that that sector is hegemonic and participates in the bloc in power, since the game of politics is more complex in its formulations and results. (The saying that hegemony means strength and willingness to compromise is applicable here.) Secondly, the reason for this is that bourgeois groups in current capitalism are quite heterogeneous, with varied portfolios in various branches. This diversification also applies to the working class (which cannot be confused with nineteenth-century workers because now there are new service segments, a public sector, informal markets, etc.) Thus, while in analyses at a higher level of abstraction one can still use categories such as "industrial capital," "banking," "agrarian," or "exporter," in concrete historical studies it is much more difficult to mark the dividing line between them when we are speaking not of capital but of the capitalists who personify it. Since manufacturing companies, and not just big ones, have financial investments that depend on real interest rates, measures such as lowering the interest rate are no longer a consensual measure for significant segments of industry. Similarly, financial conglomerates have agribusiness ventures, and therefore exchange rates and monetary policies may have diverse impacts according to the segment involved. In other words, a company or even an individual capitalist may belong to more than one group, and this hinders the clear demarcation between class groups in studies such as those that examine the association between their class interests and the policy options for a specific situation. The same is true for companies that produce for both domestic and foreign markets and whose costs are both in dollars and in reals, which in theory might make them, in principle, not favor either appreciated or depreciated exchange, since the weight of different cost items varies depending on each situation.

There are, however, two interpretations that have more fully dealt with these issues. Both recognize the complexity of clearly demarcating the interests of class groups in present-day Brazilian society. On the one hand, Singer (2015) detects in Lula's government a polarity between two currents that he calls "rentiers" and "productivists"—the former including financial capital and the traditional middle class and the latter consisting of industrial entrepreneurs associated with groups of the organized working class. Lula was the arbiter of the correlation of forces, "sometimes favoring one and other times favoring the competition." Rousseff's 2011 change is understood as a "developmental test" with a "firm brand: 'state activism' in the pursuit of reindustrialization." On the other hand, Boito Jr. (2005a; 2005b; 2012) and Saad-Filho (Boito and Saad-Filho, 2016), citing Poulantzas (1976), believe that the basic polarity is between an internal bourgeoisie (including industry, banks, agribusiness, and civil construction) and a class that is more associated with foreign capital and mainly the international financial sector. With Singer, they accept that the dividing line between classes is subtle and that the two blocs are made up of diverse sectors, and they emphasize that a significant part of the bourgeoisie has always avoided getting close to the PT governments. However, they consider all the internal contradictions of this heterogeneous bloc secondary to "the contradiction represented by the dispute with big international capital" (Boito Jr., 2012: 77). The rationale for this thesis is well-established, pointing to the support of sectors of the bourgeoisie for Lula's government through articles and statements by leaders of the Federation of Industries of the State of São Paulo and laws, financing, and exemptions for companies of the bloc in power, mainly the "national champions" of the BNDES. More careful than Singer, Boito Jr. (2012:

69) treats economic policy as "neodevelopmentalist," creating a radial concept to justify its "hybridism."[4]

It is impossible to evaluate these arguments in detail here, but both see the debate as unfinished and recognize the need for more research to move forward on this topic. Lula's 2002 "Letter to the Brazilian People" fulfilled two functions in particular: it addressed the bourgeoisie as a class and promised the abandonment of the most radical PT principles with regard to debt moratoriums and audits of internal and external debt and property rights, and it emphasized the banking sector and all sectors with financial investments, not only large companies but smaller ones, the middle class, and even the unions through their pension funds (Oliveira, 2003). The inclusion of the financial bourgeoisie and rentier sectors in the bloc in power and their hegemony was established. This commitment was confirmed through the maintenance of the inflation targeting system of the Cardoso government, which demanded high interest rates, appreciated exchange rates, and a primary surplus. The latter excluded interest from its calculation, and it was one of the pillars of the hegemony of the financial sector because it safeguarded such fractions of capital from any measures that might reduce public expenditures. Thus, although financial hegemony is not unique to Brazil, it is notable not only that interest rates in the country are consistently higher than those prevailing internationally but also that the treatment of the primary surplus as a fundamental clause in economic policy makes it unquestionable. This is a way to retain financial gains if any public-sector adjustment is implemented.

These policies for maintaining these sectors as the most important ones in the bloc in power eventually led to the main reward that was the promise of autonomy for the Central Bank (its president was Henrique Meirelles, who was linked to the Brazilian Social Democracy Party). In the Brazilian institutional framework, the Central Bank, through its monetary policy committee, is responsible for establishing monetary and exchange-rate policies. When it agreed to maintain its rule, Lula's government gave up a significant portion of its control over economic policy. What remained under its influence was only the fiscal policy of the Ministry of Finance (and an escape valve that would then be used to reward other bourgeois groups and workers in the conflict of the private banking sector with public banks).

One can speak of hegemony here because this class group was given, through two key instruments (exchange and interest rates), the option to determine its degree of autonomy from the government. Thus it was able to determine the profit rate not only of the financial sector but of all the capitalist classes. In a context of rising inflation such as that under Rousseff's government, the problem was the greater because to achieve a primary surplus it is necessary to reduce the expenditures of all the other sectors but the payment of public-sector interest rates is guaranteed. Furthermore, since the struggle against inflation usually produces higher interest rates, financial gains increase even more when the expenditures of other sectors are reduced. Paradoxically, the Central Bank had the freedom to carry out exactly the opposite policy: raising interest rates, which increased public spending, raised the nominal deficit, and neutralized the recessive fiscal policy.

Thus, Singer's interpretation that the conflict between rentier and productivist sectors was balanced by Lula's arbitration seems inappropriate. It is not that the correlation of forces did not change over that period, but it cannot be suggested that the two were of equivalent or even similar weight in the power bloc (and therefore that there was no hegemonic fraction). Our analysis reinforces the hypothesis that the balance was always tilted toward one side, an interpretation that coincides with those that support the idea that the productive sector was subordinate to financial capital in the bloc in power (e.g., Filgueiras, 2015; Gonçalves, 2012; Paulani, 2003; 2017; Teixeira and Pinto, 2012). Even the reversal of deindustrialization, which in theory could have placed greater weight on the productivist side, was neither the focus of economic policy nor its result. In this regard, Boito Jr. (2012: 69) is right in arguing that the government coalition accepted a regressive specialization, thus revealing that there was no project for reversing Brazil's subordinate position in international capitalism.

Our interpretation, therefore, is that Lula's government, by colluding with the hegemonic financial sector, never abandoned this agreement (to the point of suggesting to Rousseff, in a *realpolitik* understanding just before her impeachment, that to avoid it the best formula for "calming the markets" would be to invite Meirelles to lead the economic area). To other social sectors, capital or labor, Lula responded with policies that can be called compensatory. Thus, the central thesis of our interpretation of Lula's economic policy is that the hegemony of national and international financial capital became the center of monetary and foreign-exchange policy and compensatory policies were applied to the other groups of capital and to the workers. This social pact was based on a formula that foresaw macroeconomic austerity along with the redistribution of income, but the government adopted policies for increasing the minimum wage, expanding programs such as Zero Hunger, the Family Grant, My House, My Life, Electricity for Everyone, Consigned Credit, Science without Borders, and More Doctors, and increasing the number of available spots in public universities and adopting a system of racial and socioeconomic quotas. The historical commitment to income redistribution and social inclusion was maintained by both PT governments, and this reduces the temptation to consider them neoliberal simply because they maintained the guidelines of a neoliberal macroeconomic policy and/or lacked the political power or will to confront the financial sector's hegemony. Consequently, social programs were broadened, and the Gini index and the poverty rate consistently improved.

Similarly, there is robust empirical support for the interpretation of Boito Jr. and Saad-Filho regarding measures that favored the "internal" sectors of capital. These sectors benefited most from BNDES policies through credit, subsidies, and exemptions. The same was true of national banks, which, as under the Cardoso administration, even in the crisis did not perceive any threat to their profits or the possibility of their being bought by foreign groups. At the same time, the expansion of the national agribusiness and contractors' sectors was guaranteed even when foreign policy favored the South-South axis, Mercosur, and the BRICS.

How are we to interpret the "new macroeconomic matrix" and the changes of the second half of 2011? In fact, they can only be understood as a reaction to a crisis rather than as a plan for resuming industrialization, and this makes it impossible to consider this a developmentalist shift. Why did the focus change? Our fundamental hypothesis is that the international crisis, combined with internal compensation policies, made it impossible to maintain the pact Lula had established. The adopted "formula" of class conciliation—austerity with increasing compensatory policies—assumed that the GDP and national income would also increase. It was possible to maintain this formula while there was (*a*) a balance-of-payments gap, hitherto ensured by favorable terms of trade of commodities and increasing external capital inflows either through direct foreign investment or financial speculation; (*b*) the opportunity to raise the minimum wage and salaries in the private sector, given the gap between such wages and productivity because of the wage tightening that had been in force since the end of the 1970s; and (*c*) a primary surplus, which allowed public expenditures and exemptions and capital subsidies to grow without increasing the tax burden. With the decline in production and unemployment, a primary deficit could no longer be avoided because of the greater inelasticity of expenditures in relation to revenues and the fact that some of these had a constitutional link, which aggravated the dispute over public resources for sectors that had hitherto coexisted with reasonable courtesy.

Rousseff's decision to implement changes, therefore, was not a simple choice but based on events that demanded them. The material basis of the agreement no longer existed, and her only option to avoid recession and thereby prevent the worsening of political conflict was a countercyclical policy. The question was with what instruments. This was only possible through the disruption of the coalition established by Lula—confrontation of the autonomy of the Central Bank and the easing of the system of inflation targets, which were not just symbolic but essential to the hegemony of the bloc in power. In making this decision Rousseff's government not only fully achieved the institutional framework that guaranteed hegemony for the financial sector but also gradually drove other bourgeois groups away from the government. Since it was impossible to increase the public deficit and the tax burden, the government opted for providing incentives for private investment to respond to the reactivation of the economy. In this connection, Carneiro (2017) posed the question (which deserves to be studied more closely) whether the Brazilian state really had the tools (public companies, banks, and planning capacity) to guide the rate of economic growth.[5]

As suggestions deserving further investigation, we list the following factors that would have contributed to driving the business sectors away:

The public deficit exacerbated conflict among the sectors benefiting from compensatory policies; the business sectors had to divide the cuts between themselves and the workers.

The government showed that it would not abandon the workers. In other words, the decrease of profits was not relieved by a reduction in wages (the solution classically applied by orthodox governments, which preferred a recession to a crisis). Government pressure took the form of significant investment in productivity, which made business itself responsible.

The only alternative for continuing with expenditures without increasing the public deficit was tax increases. Entrepreneurs began to call for cuts in spending such as pension reform and the downsizing of the public sector and social programs. The risk was that the government would opt for progressive taxes on profits and property, further crippling the class coalition established by Lula in 2002.

Vertical government policies that promoted "national champions," tax exemptions, and subsidies appealed to the sectors benefited but displeased others. The leaders of industrial and commercial associations gained support from disgruntled small and medium-sized businessmen with tax burdens and labor costs with a pro-austerity argument.[6]

The internationalized sectors joined others to condemn interventionism when they were adversely affected by measures of a "nationalist" character in programs such as the Pre-Salt and shipbuilding, which protected some domestic capital investment. The media intensely explored the fact that Rousseff's "national-developmentalism" in these sectors resembled the Varguism that Cardoso had promised to eliminate forever. This is why we were not as surprised as Singer (2015: 59) (who considered it "ironic") that the industrialists of São Paulo Federation of Industries were aligned against the government even though the intervention responded to what he identified as "their own interests." This could have been part of the business resistance to interventionism pointed to by Rugitsky (2015), citing Kalecki (1943), but the other reason offered by Kalecki—the private sectors' fear that the government would occupy their role to reverse the cycle—is less likely. A different option was already assumed by their own economic policy, with its supply-side measures.

Thus, for various reasons, the pact established by Lula was being undone, unifying all segments of the bourgeoisie against the government. Upon taking office for her second term, Rousseff realized this and set up a more orthodox team with Joaquim Levy, linked to the financial sector, as finance minister. In implementing the economic policy that had existed before 2011, he opposed the popular base that had led to the slim victory of the PT but showed that he would respect the commitments made to the hegemonic financial sector. In this situation the contradictions of the government were no longer with this sector, since the Central Bank had already pulled back from the policy of low interest and devalued exchange. Increased inflation justified the return to austerity. The center of the discussion of economic policy was once again the primary surplus. Once the continuity of financial hegemony was guaranteed, the focus was on compensatory policy, which increased uncertainty on several fronts. What primary spending would be cut? What taxes would be increased? Would subsidies and exemptions to entrepreneurs be maintained? Who would pay for the cost of adjustment? While entrepreneurial sectors such as the Federation of Industries were already leading the impeachment campaign, the last group of capitalists to join was the financial one. Not surprisingly, the minister of finance, Joaquim Levy, had emerged from its ranks and the sector was the only one that remained unaffected by the crisis. This was guaranteed by the prevailing economic policy. It was therefore the only sector that had a certain amount of uncertainty about what it could lose from as risky and radical an act as overthrowing an elected government.

CONCLUSION

The economic policies of Lula's and Rousseff's governments deviate from neoliberalism, but they cannot be considered developmentalist either. It is impossible to conclude that they attempted to execute a steady long-term project with a strategy for reversing the deindustrialization of the country or advancing to a new technological paradigm, despite documents that proposed this and sectoral measures. Our analysis suggests that these governments, while lacking a structured economic development project, had a historical commitment to income redistribution whose policies were largely successfully implemented. The broad social pact proposed by Lula in the "Letter to the Brazilian People" acknowledged the hegemony of financial capital or "rentiers," which helps explain the continuity of Cardoso's economic policies. This pact was based on the inflation-targeting system and on the independence of the Central Bank to manage it, and it was implemented through high interest rates, increased exchange rates, and a primary surplus. Its contradiction was that it protected the hegemonic group by means of monetary and fiscal policies while at the same time demanding constant intervention with compensatory policies that were made feasible only by fiscal policies (taxation, transfers, and subsidies). The primary surplus necessary to meet interest payments and public expenses could be maintained only while there was GDP growth, a favorable balance of payments, and a gap between wages and productivity.

As of 2011, the crisis, in addition to changes in the international situation, with slowing growth in China and other leading economies, that had a negative impact on the Brazilian trade balance did not allow this to continue, and therefore the Rousseff government changed policies. The "new macroeconomic matrix" devalued the exchange rate and lowered interest rates, but it can hardly be interpreted as a "developmentalist turn." Although unorthodox, to a great extent it resembled countercyclical policies, whether Keynesian (supporting aggregate demand) or supply-side (seeking to secure growth with incentives for private investment). In any case, it represented a continuation of the proposal for social inclusion that had emerged in Lula's administration, in addition to an awareness that, with recessive policies, the phasing out of the pact was imminent, even with sectors of capitalists that had hitherto benefited. At the beginning of her second term Rousseff, under the pressure of inflation and macroeconomic imbalances, chose to return to austerity and, in this way, to mend the coalitions established by Lula in 2002. This option further intensified the conflict of the other bourgeois groups among themselves as well as with workers. The conditions no longer existed for the maintenance of the primary surplus and compensatory and income redistribution policies. It was not, therefore, a matter of correct or incorrect economic policy but a matter of the lack of the material, economic, and political grounds for their execution.

NOTES

1. Nunes's (2018) thesis on this issue uses the same concept (Fonseca, 2014) to analyze Lula's government and distinguishes between intended measures, those implemented, and actual results. It reveals that although there are documents that express awareness of industrial problems, no steps were taken to solve them.

2. Schapiro (2013) states that the policies adopted by the Greater Brazil Plan had a more corrective bias, with a profile more similar to neoclassical industrial policy theories. The strategies adopted by Dilma's government ended up maintaining the current Brazilian position in the international division of labor, since they mainly encouraged Brazil's traditional industrial activities.

3. The term "hegemony," although inspired by Gramsci, will be used in a more restricted sense in this article. Hegemony for Gramsci (1975) involved variables that are outside the scope of this article, such as intellectual structure, culture, and the pursuit of legitimation through mechanisms of ideological dissemination. In this article the categories "bloc in power" and "hegemony" are used as Poulantzas (1976) used them. The concept of bloc in power assumes the recognition of "internal differentiation of the ruling classes," and hegemony implies the possibility that some class group might impose its interests on others or have more relative power within that bloc to assert its interests.

4. Radial concepts are used to extend a concept to cover new facts. Generally, this is done with prefixes or adjectives, as with "neodevelopmentalism," "new developmentalism," "social developmentalism," etc. One should be careful not to allow the traveling of a concept to cause a stretching of it that might lead to distortion (Weyland, 2001), in this case making it too broad (for example, considering any interventionist measure or measure in favor of the industrial sector "developmentalist").

5. In an interview with *Folha de São Paulo* on March 9, 2017, Dilma Rousseff, asked about the failure of her industrial policy, said, "What was not well matched was the reduction of taxes for industry. We wanted to provide tax incentives so that employment would not decrease. What was proved that way? That for this sector, in Brazil, the first option is to increase the profit margin. The second may be to increase investments, but I did not see that this option was actually implemented." Here she admitted that the objective was the maintenance of the level of employment and that its "supply-side" policy was a mistake, but she attributed their failure to the behavior of the entrepreneurs who sought to increase profit margins when in fact the profit rate was dropping and the reduction of taxes only counterbalanced the maintenance of the margin. On the problem of the decline in profit rates, see Marquetti, Hoff, and Miebach (2016) and Prado (2017).

6. Carneiro (2017: 27) argues that BNDES financing fostered a more even distribution of income and that there was even deconcentration in the period. He acknowledges, however, that there was a "great negative publicity" about the "champions," and this is what we consider a persuasive element in criticizing the government.

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