

https://dspace.org/

From Euphoria to depression: political settlements and crisis during Dilma Rousseff’s presidency

Moraes, Vinicius Diniz

2018

https://hdl.handle.net/10539/27076

Moraes, Vinicius Diniz, (2018) From Euphoria to depression: political settlements and crisis during Dilma Rousseff's presidency, University of the Witwatersrand, Johannesburg, https://hdl.handle.net/10539/27076.

Downloaded from a DSpace repository. https://dspace.org/

Economic Policy in the Age of Globalization

University of the Witwatersrand

Université Sorbonne Paris Cité

Vinicius Diniz Moraes

From Euphoria to Depression: Political Settlements and Crisis During Dilma Rousseff's Presidency

In partial fulfilment of the Master of Commerce, at the University of Witwatersrand and; of the Master in Economic Analysis and Policies at the Université Paris Sorbonne Cité.

Supervisors: Mr. Nicolas Pons-Vignon and Mr. Pierre Salama

Word Count: 17.690

Paris,

June 11th, 2018

“I.A.A.M.L.”

“O governo estimula e o consumo acontece
Mamãe de todo mal a ignorância só cresce
FGV me ajude nessa prece
O salário mínimo com base no DIEESE
Em frente a *shoppins*, marcar *rolêzins*,
Debater sobre cotas, copas e afins
O opressor é omisso e o sistema é cupim”
(Criolo)

Acknowledgements: Funny the Way It is…

What? Is it over? Already? Funny the way it is if you think about it[1]. It seems it was yesterday that I left Brazil while President Dilma Rousseff was impeached (ironic no?!). By then, I did not know, but I was heading to the craziest and most intense two years of my life. During this time, I met people from the four corners of the world. I had learned about economics (really?) but also about life. I lived in three different countries and learned two new languages. I realized dreams and lived a nice life. By the end of the journey, I became a wine lover (384 different wines tasted!), a sailor and perhaps an economics master (funny).

As incredible as it has been, it would not be possible without some very special people. First, my family that fiercely supported me throughout the journey by letting me peruse my dreams apart from the distance and the *saudades* that this journey led to. Also, my American family that adopted and never forgot about me. Second, I thank all my friends, the old ones left in Brazil and the new encounters. In special, Maria Cristina for all the life support and co-partnership in papers, Pascal for all the fun, Clara for the insightful and intellectual conversations (for the tour in Montreal and the Bagels too), Jenan for her kindness, Ettore for the Italian influence (apart from the songs) and Cirineu that, besides the distance, has always being present when I needed. Third, I would like to thank my supervisors for the full commitment, patience and attention in guiding me to finish this journey with this work. Lastly, I would like to thank EPOG and all the people surrounding the program for the effort to make a grandiose program that enables students from all over the world to do what they like with educational and financial support. Long life to EPOG!

This final research project wraps up all the effort I put into the course of the program. It was hard and challenging, but definitely worth the ride. I tried to put all my passion and commitment to it, but never losing the fun. I hope this thesis illustrates my willingness to see a better *Brasil* one day. Finally, kindly thank everyone not specifically mentioned but part of this journey. I hope this study matches all the support and expectations I had while writing it.

[1] Line taken from a song by Dave Matthews Band.

List of Abbreviation

BCB - Banco Central do Brasil (Brazilian Central Bank)

BNDES – Banco Nacional de Desenvolvimento Economico e Social (National Bank for Economic and Social Development)

CNI - Confederação Nacional da Industria (National Confederation of Industry)

CUT - Central Única dos Trabalhadores (Worker's Central Union)

FEBRABAN - Federação Brasileira de Bancos (Brazilian Federation of Banks)

FIESP - Federação das Indústrias do Estado de São Paulo (São Paulo State Industrial Federation)

MBL – Movimento Brasil Livre (Free Brazil Movement)

MCMV – Minha Casa Minha Vida (My House My Life)

MST - Movimento dos Trabalhadores Sem Terra (Landless Workers' Movement)

NIE – New Institutional Economics

NME - Nova Matriz Econômica (New Economic Matrix)

PBM – Plano Brasil Maior (Greater Brazil Plan)

PDP - Política de Desenvolvimento Produtivo (Productive Development Policy)

PS – Political Settlements

PSDB - Partido da Social Democracia Brasileira (Brazilian Social Democratic Party)

PT – Partido dos Trabalhadores (Worker's Party)

Selic - Sistema Especial de Liquidação e de Custódia (Especial System of Liquidation and Custody)

WID – World Inequality Database

Table of Contents

1. Introduction **1**

2. 'The Establishment's Blues' **2**

3. Political Settlements Approach **5**

3.1. Theoretical Foundations of the Political Settlement Approach 6

3.2. Political Settlement Dynamics: Reproduction or Crisis 10

4. Factions, Classes and Power in the Brazilian Society **14**

4.1. Capitalist Class 15

4.1.1. Financial Capitalist Faction 15

4.1.2. Productive Capitalist Faction 16

4.2. Working Class 18

4.3. Middle Class 19

5. Political Settlements and Development: How Far Can You Go? **21**

5.1. Political Settlements and Economic Policy: The Coordination Behind the National Development Project 21

5.2. First Wave of Conflict: Do You Know Who You Are Speaking With? 27

5.3. Second Wave: In the Name of Economic and Political (In)Stability! 31

5.3.1. Economic (In)Stability: Taking the wrong turn 32

5.3.2. Political (In)Stability: Legitimation Crisis 37

6. The Collapse: What is Behind and What is to Come? **43**

7. Conclusion **46**

References **47**

Table of Figures

Figure 1: Political Settlements and Feedback Mechanism 13

Figure 2: Basic Interest Rate and Spread 24

Figure 3: Gross Fixed Capital Formation ..... **Error! Bookmark not defined.**

Figure 4: Evaluation of Dilma Rousseff's Presidency 38

Figure 5: Rejection of Dilma's Government 39

Figure 6: Media Impartiality (2014-2016) 41

1. Introduction

Brazil is again in a hard situation. After the lost decade of the 1980s and the neoliberal wave of the 1990s, the country seemed to have caught its breath, managing to sustain some economic growth under more progressive government under the administration of the *Partido dos Trabalhadores*[2] (PT), with Lula and later Dilma Rousseff. For some time, Brazil was seen as an example of a country able to grow economically, help the poor, and distribute income. However, the picture changed during Rousseff's impeachment in 2016 and the rise of a neoliberal government under Michel Temer's administration.

Based on these developments, this research focuses on the political economy during the two terms in office of Rousseff in Brazil (2011 to 2016), aiming to identify the economic policies and the related class struggle of the period. This study is based on the following research questions. What were the dynamics and tensions behind economic policy and class conflict during the two mandates of President Dilma Rousseff? How do these relate to the fall of the PT's administration in 2016? And what are the possible policies to reverse the crumbling scenario?

Primarily, the first term of President Rousseff was formed by a coalition attempting a new development project. However, the project suffered contestation and competition from different classes, leading to shifts and turns in economic policies proposed, limiting the efficacy of the developmental plan and negatively affecting the stability of the government. Rousseff's second term, which attempted to fix decaying governance, represented a drastic shift in economic policies towards a neoliberal approach in an attempt to regain governance. But this was in vain as economic performance worsened, bleeding into the political sphere and culminating in the collapse of the government.

Secondarily, amid the increasing instability of the political settlement, two developments emanating from social classes were important for the political and economic crisis: first, the increasing competition between capitalists, and second, the detachment of the working class from the government. These dynamics in the economic and political spheres were important conjunctural elements for the crisis of the political settlement culminating in the impeachment of President Rousseff. Additionally, the crisis also evidenced structural problems of Brazilian society. Thus, the depression under the PT evidences the strong need for deep changes and policies to lead the country on a new developmental path.

[2] The Workers' Party

This research uses mixed methods to answer the research questions. First, the political economy of the Political Settlement (PS) approach forms the theoretical background, since the framework captures the different interactions between diverse groups and power and their use of policy to intervene in the social order. Second, the study analyses quantitative data to study economic factors and changes regarding the subject. Third, it uses semi-structured interviews and qualitative investigation of documents, press reports and speeches to analyse the class struggle around economic policies in the period.

The paper is divided as follows. Chapter 2 presents a short contextualisation, and the methodology and shortcomings of this research. Chapter 3 describes the theoretical background formed by the PS approach. Chapter 4 identifies and categorizes the different social groups in Brazilian society during the two mandates of President Rousseff. Chapter 5 describes the formation of a development project based on a political settlement between different classes during Rousseff's first mandate. Additionally, it shows the contradictions and growing class conflict around the economic policies of the two mandates, linked to the political and economic stability of the government. Chapter 6 underlines some of the motives behind the class conflict and attempts to give some policy recommendation, and concludes the study.

2. 'The Establishment's Blues'

The elections for the Brazilian Presidency in 2002 marked a new chapter in Brazilian history. For the first time, the centre-left party, the PT, had elected a president - Luiz Inácio Lula da Silva. During the first two terms of President Lula's administration (2003 to 2006, and 2006 to 2010), the average GDP growth rate was 4%. In addition to the positive economic scenario, the government adopted a series of more social policies focused on the poor, such as the increases in the real national minimum wage, the conditional social transfer programme (*Bolsa Familia*) and a program to combat poverty and hunger (*Fome Zero*). By the end of his second term, Lula was extremely successful with an approval rating of around 80% (CNI-IBOPE 2017). The success was confirmed by the election of Dilma Rousseff as a successor for 2011 to 2014 - an incredible fact of third centre-left president from the PT in a row.

Rousseff inherited a booming economy that emerged from the 2008 crisis strongly; one year later, The Economist (2009, November 12th) described Brazil as an economic power "taking off". Hence a euphoric sentiment was established in the country at this time. By 2010 the economy grew by 7.5% of GDP. However, the euphoric phase rapidly turned into turmoil as people started to question the sustainability of the country's development over the previous

years. The ups and downs in economic policy and the poor economic performance led to the question: "Has Brazil blown it?" in The Economist (2013, September 27th). Even though Rousseff was re-elected, the light at the end of the tunnel seemed constantly further away. The economic performance plunged to -3.77% GDP growth in 2015 and -3.59% in 2016 respectively. Additionally, the movements against the government increased as millions of people gathered in the streets demanding the impeachment of President Rousseff, a movement that would be later known as "the great betrayal" (The Economist 2016, April 23rd).

The 'cold fact' is that President Dilma Rousseff was impeached on August 31st, 2016 and Michel Temer was announced the new president. The fall of President Rousseff also polarized the country: for one part of the Brazilian population the impeachment represented an undemocratic political process for the Brazilian right to regain the dominant power, a coup d'état, while for others it was the people's victory against a corrupt government that had driven the country into chaos. Ultimately, the impeachment evidenced that the Brazilian depression was not solely economic, but also political, institutional and social.

The new government came to transform the country with a series of policies to restore economic stability and growth. "But all I heard was the Establishment's Blues"[3]. The new policies are deeply rooted in the neoliberal holy triad of liberalisation, flexibilisation and privatisation. Some of the new policies included a law that freezes the fiscal budget for the next 20 years, and reforms the labour code to flexibilise workers' protection. Moreover, Temer's government also proposed changes to the social security system and new privatisation, ranging from energy and oil to the national mint.

The drastic change in Brazil from euphoria to depression raises questions about the dynamics that lead to these changes. Principally, what rouses the attention is the gap between the more progressive government of Lula and the rise of a neoliberal administration under Temer. This research argues that the central elements lay in a complex among classes, power and economic policies, in which constant struggles influenced governance and the performance of Dilma Rousseff's government.

This research aims to understand these class dynamics using mixed methods, including qualitative and quantitative research, in five main steps. The base of this research is a political economy analysis of the Brazilian crisis. The first step presents the PS approach as the basic theoretical framework because it recognises the social order as a complex dimension involving the confrontation of many actors around policies influencing both politics and the economy.

[3] This is a line from a song by Sixto Rodriguez from the song "Establishment's Blues".

This study assumes the interaction between economic policy, distribution of power and development as the source of the crisis.

The second step identifies the different factions, interests and 'holding power' in the Brazilian social order during the period studied. For this, I followed the approach of Boito Jr. (2007) and Saad-Filho (2014) basing the division of classes on how they are related to production, in which owners of the means of production are classified as capitalists, while the rest are either the middle or the working class, largely based on their interests and position in the social structure. Moreover, the identification of different institutions connected with factions helped me to understand and clarify the interests of each faction and its potential impacts around economic policy. Lastly, it used the data related to wealth and income distribution from the World Inequality Database (WID 2018) as a measure of economic power related to the notion of holding power, which will be elaborated below.

The third phase describes the economic policies of the first mandate of Rousseff. This stage aims to support the hypothesis that behind the developmental plan lay a coalition between the productive capitalist faction and the working class. This was done through a qualitative study of speeches by political figures and policy reports, which tried to understand the goal and vested interests of economic policy. Additionally, I analysed the manifestations of factions around the adoption of the economic plan, towards confrontation or support. This relates to considering class struggle in the study of the dynamics of the political settlement.

The fourth step uses quantitative data and reviews literature to analyse economic performance during Rousseff's two terms. The qualitative macroeconomic data is used to inquire about the evolution of the economy over the course of those mandates. Afterwards, different diagnoses are presented of the sources of the economic crisis, and the policy advise to escape the scenario of decay. Here, the analysis shall inquire into the hypothesis that the government failed to sustain economic growth leading to an economic and rationality crisis.

The fifth stage addresses the political viability of the political settlement. This step seeks to validate the hypothesis that the crisis is also political, especially due to the decaying political support for the government triggering a legitimation crisis. To grasp the dynamics of government support, empirical indicators were used such as political support and semi-structured interviews with different actors in Brazilian society including members of the PT. Additionally, a discourse analysis captured the different confrontations around the government and economic policy which impacted positively or negatively on the viability of the political settlement. Lastly, the research attempts to draw out some of the motives for class struggle around the Brazilian crisis, using the work of Kalecki (1943) as support. Additionally, based

on the study and the conclusion of this project, I attempt to give some policy recommendations to overcome the crisis and potentially set Brazil on a new developmental path

However, this study is limited to crises emanating only from the tensions around economic policies. The decay in political viability of the political settlement and the legitimation deficit have different dimensions, comprising various spheres of conflict in the administrative, legislative and judicial powers, corruption scandals, and the economic, to cite some. Certainly, a complete study of the Brazilian crisis needs to include all those features, especially because the impeachment process encompassed complex politics involving obscure deals and agreements, such as the hypothesis that the corruption investigations around Petrobras were biased against the PT.

Additionally, the present research limited the inclusion of other phenomena like the insertion of the Brazilian economy into the international division of labour and financialisation. For the former, the research does not focus on the external effects of the Brazilian economy such as the role of commodity prices related to trade, speculative attacks concerning economic stability, and international relations considering the possible influence of the United States in the impeachment process. For the latter, the present approach only recognizes the increased inclination of capitalist factions to form alliances, but excluded the effects of the phenomenon on other factions and in the accumulation process. Indeed, Epstein (2015) argues that increasingly, financial motives affect productive investment decisions, influencing actors' decisions and leading to other economic issues such as macroeconomic instability and deindustrialisation. These are promising elements for future research.

3. Political Settlements Approach

The Political Settlement (PS) approach is an analytical framework based on institutions, which considers political economy elements in order to understand governance, stability and the emergence of crisis. It poses itself as an alternative institutional approach to the New Institutional Economics (NIE) developed by North, Wallis and Weingast (2009, 2013), by eliminating the neoclassical and ahistorical. The core idea of the PS approach is that actors with similar interests can form factions and coalitions. The confrontation between factions, bargaining, and distribution of power affects the institutional structure of the society; thus they are the motors of performance and structural change in a determinate social order.

The balance of power between competing factions can lead to compromises which create a PS influencing institutions and policy in their favour. However, the established

settlement requires minimum levels of political and economic viability to reproduce itself. In case of failure in sustaining these minimum levels, the settlement can collapse, triggering a crisis. In sum, a PS is a relation between power and institutions that are mutually compatible, which is politically and economically viable (Khan 2010).

The relevance of the PS approach for this research is that to "re-interpret any country's growth experience would be to attempt to build a more *integrative* framework of economic and political strategies in explaining the variations and changes in governance and economic performance" (Di John forthcoming, p.29). The use of a political economy framework adds complexity to the study of the Brazilian crisis in the sense that it considers the interactions of different actors and institutions affecting governance and stability. Therefore, crises are seen as a product of conflict between different groups, anchored in the power structure of a society, which can manifest in and impact different dimensions such as the political, the economic and the institutional dimension. The framework helps to dismiss simplistic diagnosis of the Brazilian crisis, either the view that it was caused by government corruption or by solely economic factors. Further, it denies the state as an independent and coherent institution and the "traditional mechanistic-economist conception of the State [that sees the] State as a mere appendage or reflection of the economic sphere" (Poulantzas 2000, p.15).

3.1.Theoretical Foundations of the Political Settlement Approach

The PS approach introduces to the study of governance and crisis the potential effects of agency, ideas and beliefs on coalitions, political settlements and performance. This approach gains in complexity and scope of analysis because it considers the way conflicting actors can produce political and economic stability, triggering a growth-enhancing path through the state's distribution of rents. But also, the conflict between actors can damage the settlement's viability, generating crisis. Therefore, the PS approach is not a study of elites nor a purely macroeconomic approach, because it considers the diversity of actors and their relevance in the society – it includes workers, financial speculators, internal productive capitalists, international actors. *Actors* will interact in the social space according to their ideas and beliefs on behalf of their personal interest. Interest can be political or economic, such as securing their position in the social order, guaranteeing their share of surplus, and securing their part of the distribution of rents.

Nevertheless, actors alone cannot enforce their interest upon others, because they do not dispose of enough power to enforce their interests. Hence, similar actors gather in *factions* to

accumulate a greater amount of power for enforcing change according to their will. In this sense, mesoeconomic and macroeconomic structures are an ensemble of factions, thus debunking models of the state as a single actor model in the traditions presented above (Di John, forthcoming). This adds complexity in the sense that it incorporates political, social and economic factors emanating from society to create a "complex bargaining processes between powerful groups within society" (Di John, forthcoming, p.31). Even though elites are important to this process because they hold greater power (and hence are able to satisfy their material interests more easily), the analysis should not be limited to the study of elites. It should incorporate other groups from society like trade unions and social movements. Therefore, instead of elites, Khan (2010) makes use of the concept of factions, defined as any groups with similar interests that compete in the bargaining process against other factions.

The notion of relative power is what will determine the relationship between factions and their ability to enforce their interests in the society. The dimension of power utilised by Khan (2010) is holding power that means "how long a particular organization can hold out in actual or potential conflicts against other organizations or the state" (p. 20). Holding power depends on the economic capability of the faction and its capacity to mobilize outside supporters and legitimize power to keep its members. Consequently, relative power refers to the difference in holding power of each faction, rather than absolute power. Hence, it becomes important to comprehend the society's *distribution of power* to study the prevalent social order and its dynamics. A faction with high relative power can shape institutions and influence the social order according to their interests. At the other extreme, the marginalized group are those factions that "do not have the power to adjust institutions and policy in their favour" (Di John forthcoming, p. 75). By contrast, the NIE uses a limited notion of power rooted in the personal charisma of leaders and neglecting structural features of the society such as historical hierarchies, path dependence and domination (Gray 2015).

At the level of the institutional struggle, groups and classes with different relative powers can form a *coalition* to accumulate power and enforce their interests upon others. Forming coalitions implies creating at least two different groups, the ruling coalition and the excluded factions. The former relates to the conglomerate of factions that has enough power to alter the institutional setting in their favour to create an additional income flow called rent, while the latter encompass all factions excluded from the ruling coalition but not necessarily forming a coalition amongst themselves. The difference between factions and coalitions is that coalitions are agreements between factions with interests which are common but not necessarily identical. The formation of coalitions is a "bargaining process over appropriate compensations

and enforcing the relevant agreements" (Khan 2010, p.14). Consequently, the formation of coalitions within the society and the respective distribution of rents follow bargaining according to the distribution of power.

Khan (2010) analyses the interaction between institutions and *distribution of power* through a double causation: 1) institutions cause changes in the distribution of power by creating economic benefits for the ruling coalition; 2) distribution of rents affects institutions because powerful groups forming the ruling coalition seek to alter institutions towards their interests. The mutual influence will interact independently, and at some point, it can cause a "compatible combination [in which] both the institutions and the distribution of power are mutually supportive" (p.22). Nonetheless, institutions must obey the distribution of power of the society and their effectiveness in influencing society depends on the "resistance or support coming from powerful groups in society given that any institutional rule has differential costs and benefits for different groups" (p.19). Indeed "an institution that was beneficial overall in terms of net social benefits may still be strongly contested if the implied distribution of benefits was not compatible with the interests of the powerful group" (p.22-23). In other words, institutions are both based on and supportive of the distribution of power. Thus, distribution of power influences institutions that, in turn, enforce the dominant coalition's will upon the rest of the society.

Evidently, the notion of *institutions* is a key element in the PS approach because they are the means of materializing interests through power and coercion, and the loci of the struggle between factions and coalitions. Neoclassical economics conceptualizes institutions as incentive structures (rules) for proper allocation of resources and property rights, independently from structural historical elements in the social order (Di John and Putzel 2009). The PS approach distances itself from the ahistorical neoclassical framework proposed by NIE by using the historical political economy method that views institutions as the space for conflict and mediation of factions' interests (Gray 2015). Therefore, they are the product of conflicts and define the rules of the social game (Amable and Palombarini 2017). Institutions can have two different forms, formal and informal. Formal institutions are political decision-making rules that "define the rules for changing the rules" according to the cost of enforceability, also known as "political transaction cost of organizing changes" (Khan 2010, p.14). Informal institutions are a set of norms, values and cultures that may incur additional costs for institutional change and create path-dependency. The key addition of the PS approach is that "institutions incorporate distributional advantages in line with the reigning political settlement" (Di John

and Putzel 2009, p.8), thus adding the importance of power in determining income outcomes such as the distribution of rents.

In the case where a dominant coalition enforces institutions in its favour and can reproduce the desired institutional framework with certain levels of stability, this dominant social order is a Political Settlement. In this sense, *political settlement* is a "descriptive term that characterises the social order" (Di John, forthcoming, p.30). The definition of a PS is "an interdependent combination of a structure of power and institutions at the level of a society that is mutually 'compatible' and also 'sustainable' in terms of economic and political viability" (Khan 2010, p.20). Here we need to study the definition of two separate parts. 1) what constitutes a PS and 2) how it is sustained and reproduced over time. First, a PS is a structure of interacting agents and institutions. Di John (p.72) explains that PSs themselves "do not generate policies nor changes" - agents and coalitions do. Thus, in the study of crisis, agents, coalitions, political strategies and ideas matter. Second, the PS requires that institutional and political structure are reproducible over time, respecting the minimum levels of economic and political viability.

The dominant group stands out in a PS because of its ability to impose costs, the so-called transition costs, on those outside the ruling coalition while maintaining the distribution of power and rents in their favour. "Transition costs can be inflicted through different mechanisms ranging from legal protests and mobilizations to violent conflict. (Khan 2010, p.38). In other words, transitional costs are a measure of the rate of decline of stability. Khan argues that the most significant transition costs related to institutional change can be identified by "electoral risk for the ruling coalition, economic costs of strikes, human costs of violence, and so on" (p.38). In this sense, powerful groups in society can mobilize to inflict costs on the ruling coalition to damage its position. This means that institutional change happens through the loss of stability.

It is important to highlight that the PS is the outcome of constant struggles between different factions in the institutional space rather than a simplistic relation between the state and the rest of the society. In this sense, there is constant competition between coalitions and within the ruling coalition. Di John explains:

> Political settlements thus are not simply a form of 'social-contract' between states and societies. States' and 'societies' are not, each, unitary entities or actors. They are always characterised by internal differences and a variety of interests and forms and degrees of power, especially in developing societies with weak institutions. There is, therefore, more or less disagreement, division and exclusion within both. This undermines the plausibility of thinking about a social contract between 'the state' and 'the society'. (Di John, forthcoming, p.32)

Given the social structure portrayed above, policy and policymaking will follow the current state of class domination and the PS. However, this does not mean that the ruling coalition has complete liberty in applying its interests, for two reasons. Firstly, policy influences different spheres of society, and consequently it will be confronted or supported by other groups according to their interests. Secondly, the introduction of change should also take into account the confrontations within the dominant coalition. Therefore, the PS needs legitimation and enforceability to ensure support for and stability of policymaking. For example, a crisis can emerge from policies that confront powerful groups because they do not ensure the right distribution of rents according to the distribution of power. Moreover, policy can trigger a crisis by not fostering economic performance. Poor performance can contradict powerful groups' interests, causing a change in their preference and turning them against the ruling coalition, thus damaging the settlement's stability.

3.2.Political Settlement Dynamics: Reproduction or Crisis

In order to be reproducible and sustain itself as the ruling coalition, a PS needs to respect minimum levels of economic and political stability, otherwise the institutional framework of the dominant coalition falls into a crisis. *Economic viability* refers to the sufficient economic performance capable of preventing an economic recession. This relates to the viability of ensuring income to powerful groups. *Political viability* describes the tolerance of the ruling coalition to mobilizations from outside of the settlement and its capacity for legitimizing institutional changes. A failure to meet both levels of viability may cause a collapse of the established PS, creating space for the formation of a new dominant coalition. In both cases, the minimum levels are a complex measure that depends on each specific case, defined by different structures and historical contexts. Therefore, crisis arise "when the structure of the social system allows for fewer possibilities for problem solving than are necessary to the continued existence of the system" (Habermas 1973, p.2)

The PS's dependence on political and economic stability adds complexity regarding its metamorphoses, reproduction and crisis. Moreover, crises are the aftermath of continuous disturbances of the social system which are produced by structurally inherent contradictions that are incompatible with sustaining the system's integration (Habermas 1973). Habermas (1973) argues that the social system is a hypercomplex environment where various social spheres interact in mutual influence. In this sense, there is a close connection between economic

and political relations that create new tensions and crisis tendencies that are no longer constrained to the economic sphere. This is because of the state's influence in the accumulation process, which focuses on crisis avoidance and economic steering in what Habermas calls "advanced capitalism". In this sense, he summarizes:

> Re-coupling the economic to the political – which in a way repoliticizes the relations of production - creates an increased need for legitimation. The state apparatus no longer, as in liberal capitalism, merely secures the general conditions of production (in the sense of prerequisites for the continued existence of the reproduction process) but is now actively engaged in it. It must, therefore […] be legitimated […] (Habermas 1973, p.36).

Repoliticizing the relations of production means that the state engages in social struggle that, through intervention, directly influences the accumulation process. There is a direct relationship between politics and the economy: "Class structure *must* be maintained in struggles over the administratively mediated distribution of increases in the social product" (Habermas 1973, p.52). Therefore, class domination occurs via the political system and the accumulation process is not a "self-regulating economic system", but influenced by social aspects around state intervention. Indeed, the economic dimension becomes closely dependent on the political sphere and accumulation depends on the political struggles related to power distribution and class compromise. This extension means that fundamental contradictions of capitalism are displaced from the economic to the administrative system. Crises are not anymore exclusive to the economic dimension, spreading to political issues.

In order to contain crisis tendencies, the administrative system is backed by legitimization in order to steer the society. Thus, it means that crisis tendencies shift from solely economic issues to problems arising from contradictions in the political realm as well. Moreover, rising state intervention indicates that there is also an increasing need for legitimation of the administrative system. In this sense, Habermas (1973) exposes that "the need for legitimation arises from evident functional conditions of an administrative system that steps into functional gaps in the market (p.58)". Therefore, class compromises matter as they impose limits on the state's planning capacity because of the need to consider 1) contradictions with individual capitalists, 2) contradictions within the capitalist state and 3) contradictions between capitalists and groups in the general population. In sum, the contradictions of advanced capitalism appear in the administrative system, and therefore, like the economic system, the political sphere is prone to crisis.

Good functioning of capitalism happens when the distribution of surplus simultaneously assures the maintenance of the accumulation process and the general public's loyalty, says

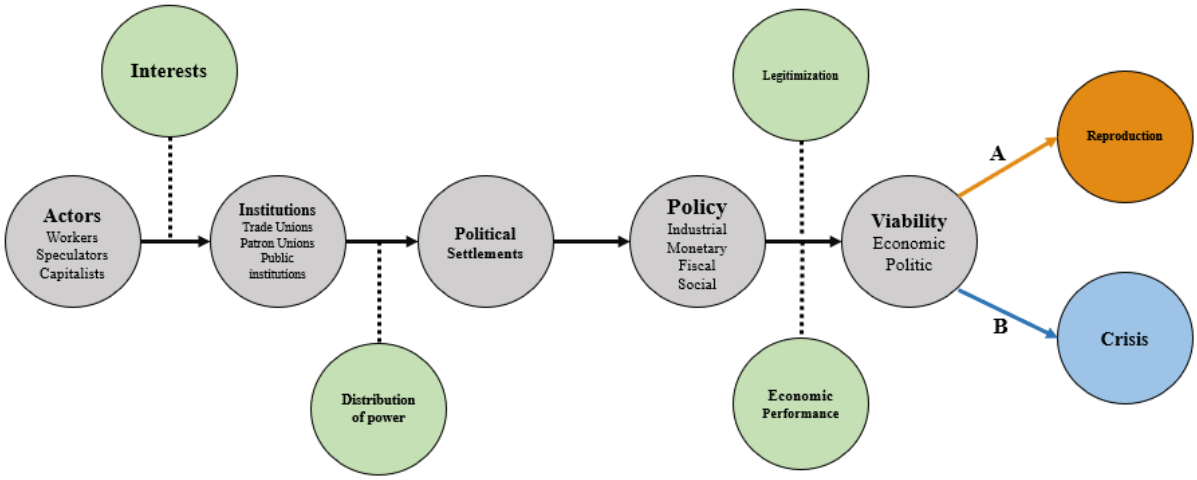
Habermas (1973). This is a view similar to the feedback mechanism described by the PS approach, which will be discussed later. However, in cases of failure, political tension rises from two types of crisis: rationality and legitimation crisis. The first relates to economic crisis, in which the state fails at "reconciling and fulfilling the imperatives received from the economic system" (p.46). The second is when the state does not maintain "the requisite levels of mass loyalty" (p.46). A rationality crisis is a systemic crisis from the economy that affects the political realm through the withdrawal of political legitimacy. In contrast, a legitimation crisis is the contestation of the state's capacity to control the social order because of legitimation deficits and not necessarily due to economic crisis. Rationality deficit happens when the state cannot contain the turmoil of the economic sphere, and legitimacy deficit occurs when the administrative system does not "maintain or establish effective normative structures" required for accumulation and reproduction (p.47).

Economic and political viability should be understood as interdependent, what Di John (forthcoming) describes as a *feedback mechanism*. This means that "political settlements themselves can be endogenous to economic performance" (Di John forthcoming, p.71). For instance, as much as political decisions about economic policy can affect economic performance, the latter influences the legitimation of policymaking and the stability of the ruling coalition. In other words, "changes in the State themselves refer above all to struggles of social classes. These constitute the framework of modifications in the role and economic activities of the State, each of which has particular effects upon the State" (Poulantzas 2000, p.53).

The break either in the economic or political realm can trigger a negative domino effect, and hence creates a "'window of opportunity' for new leaders to introduce a set of new ideas, policies, and strategies that came to be seen as legitimate" (Di John, forthcoming, p.72). If a powerful group confronts the institutional setting and the distribution of rents, it can "begin to undermine its enforcement in a variety of ways ranging from attempting to change the rule through legal processes, violating some or all of the rules and accepting the consequences, or by engaging in open conflicts" (Khan 2010, p.23). However, confrontation does not necessarily come from outside the dominant coalition. Di John (forthcoming, p.72) adds that in the course of the crisis, factions from the ruling coalition can even change their preferences and interests, damaging the political stability. Members of the dominant group can respond to an economic recession by leaving the ruling coalition and joining excluded factions

demanding reforms[4]. Indeed, the PS approach considers the possibility of reproduction, change or rupture of a social order as complex and endogenous to the confrontations around accumulation. Therefore, it differs from the gradualism the NIE which argues that development is the outcome of an accumulation of factors linked to the efficiency of formal institutions (Gray 2015).

Figure 1: Political Settlements and Feedback Mechanism



Source: Author's representation based on Habermas (1973), Di John and Putzel (2009), Khan (2010) and Di John (forthcoming)

Figure 1 compiles the notions described above, related to the formation and sustenance of a settlement. As argued, actors can form coalitions to enforce their interests through conflict within the institutional framework. Based on the distribution of power, factions can influence policymaking and affect the social and economic setting. Because of the feedback mechanism, the PS requires mutual viability of political legitimation and economic performance to be sustainable. Otherwise, the social order will collapse, creating a "window of opportunity" for a new PS to emerge. In sum, the PS approach is a complex framework considering both political

[4] In a similar way, Lamarche et al. (2015, p.7) describe that "[…] answers to difficulties of different kinds can't hide the fact that the deepening and length of the crisis encourages actors to consider it as a structural crisis calling for answers of a structural kind. There is no reason to imagine, except to considerably weaken the minimal hypotheses of rationality accepted by most economic theories, that actors are incapable of such strategic thinking, and are incapable of perceiving the crisis as a movement of decomposition-recomposition on which it is necessary to try and weigh.

and economic strategies in explaining changes and eventual collapse in governance and economic performance.

The dynamism of the approach lies in the fact that PSs are endogenous to institutional change itself. Therefore, the relationship between institutional change and the viability of a settlement can produce two different paths. On the one hand, a ruling coalition can gain legitimacy from excluded factions and trigger a sustainable, growth-enhancing path of institutional change (represented by trajectory A above). In other words, a PS can produce rent and be growth-enhancing while at the same time contradicting the neoclassical view of rent-seeking. On the other hand, if the public confronts the policies adopted by the ruling coalition, leading to a legitimation crisis, or if the PS falls into a rationality crisis bleeding over from the economy, it may trigger class confrontations leading to an unsustainable path. This path follows a rise in transitional costs, decreased legitimation, weakened political stability and slower accumulation (represented by trajectory B, above).

In sum, the PS approach is an analytical tool that is grounded in the conflict between actors and the formation of coalitions amidst the institutional space, which analyses governance, stability and the emergence of crisis. Therefore, a PS can follow a growth-enhancing or an unsustainable path depending on the class tensions and its political and economic viability. Moreover, a feedback mechanism is the interrelation between the political and economic spheres. In this regard, the next chapter proposes to assess empirically the dynamics of the political and economic viability of Brazil leading to the impeachment.

4. Factions, Classes and Power in the Brazilian Society

The competition between different factions can create coalitions and PSs between conflicting groups in the social order. This enables and influences policy towards the interests of the factions composing the dominant coalition. Based on this framework, this study identifies different factions and classes of the Brazilian society for later study of their interactions in and towards the crisis. This step focuses on characterizing different actors and their interests regarding economic policy. Additionally, it studies institutions and the holding power of each class. Section 4.1 focuses on the capitalist class, divided according to the nature of their capital into the financial capitalist faction and productive capitalist faction. Section 4.2 concentrates on the working class as the group characterised by lack of ownership over the means of production, and hence represented by the bottom of the income distribution. Lastly, Section 4.3

presents the middle class. This division and characterisation will help to understand the different interest and conflicts behind the economic policies during the period studied.

4.1. Capitalist Class

4.1.1. Financial Capitalist Faction

The financial capitalist faction comprehends the section of capitalists that have most of their capital based in fictitious and/or globalised capital and those that share those interests. In the Brazilian context, it includes domestic owners of financial capital, international players in the financial market, and owners of transnational corporations. It includes actors such as national and international private banks, insurance companies, investment funds, consultancy companies, and transnational firms (Saad-Filho 2014; Boito Jr. and Saad-Filho 2016; Saad-Filho and Boito Jr. 2016).

This faction gained even more importance during Fernando Henrique Cardoso's administration in the 1990s because the economic policy implemented during the period sought an economic restructuring via privatisation, trade liberalisation and financial integration. In terms of macroeconomic policy, financial opening to foreign capital and high-interest rates were strategies to attract international capital to stimulate the economy via foreign savings. The aftermath of Cardoso's administration was the increase and concentration of domestic and international banks and the financial system in the Brazilian economy.

The financial capitalist faction remains interested in maintaining the growing rate of financialisation and integration with the global financial system. They insist on economic policies aiming for free capital flows, privatisation and central bank independence rather than reject national development (Saad-Filho 2014). In particular, their interests lie in four main elements. First, the faction is interested in high return rates with the lowest risk possible; therefore, they benefit from a strict inflation targeting policy that keeps the internal interest rate at high levels. Second, financial deregulation and integration guarantee easy entry and exit of investment. Third, financial capitalists are interested in an economic authority that services its debts, especially in an economy with high interest rates, because that ensures high rent extraction and safety for their investment. Therefore, austerity policies seeking to reduce government debt followed by a monetary tightening correlates to financial interests. Fourth, financial concentration and oligopolization help the financial system, mainly banks, to keep big

spreads, enabling the system to extract rents from the real economy via lending at high levels of interests. (Boito Jr. 2007).

The institutional base of financial capitalists in Brazil includes the support of the local media and is represented by the *Partido da Social Democracia Brasileira*[5] (PSDB). Indeed, the role of the media in Brazil constitutes a key element for the power of the faction concerning their capacity to influence the mass population, mainly the middle class (Herman and Chomsky 1988, Saad-Filho 2014, Singer 2015). In this regard, Media Ownership Monitor Brasil (2018) points out how the ownership of media vehicles in Brazil is associated with interests in other sectors of the economy via cross-ownership. This has two important implications: first, it constitutes a very concentrated market in which the same conglomerates have various vehicles (newspaper, radio, television, internet), and 71.7% of the audience concentrated in four media conglomerates. Second, the big media institutions also own other businesses concentrated in private education and health services, financial and real estate markets, and agribusiness. In other words, groups that own media vehicles also have interests in other sectors of the economy, revealing possibly biased preferences for certain content pushing their interests. The support of the media is a key element because of its ability to spread information, ideology and interests. In the Brazilian case, it is crucial because media becomes the institution through in which capitalists spread their will to the public. Therefore, they have a high holding power of influence and mobilisation of mass loyalty, being able to enforce higher pressure in other factions.

4.1.2. Productive Capitalist Faction

The productive capitalist faction includes owners and representatives of national productive firms across all sectors of activity: agriculture, manufacture and services (Singer 2015). To be precise, this group includes capitalists that own the domestic means of production. This faction is assembled together in business associations and federations across the country united under the *Confederação Nacional da Industria*[6] (CNI) to represent and enforce their interests.

Unlike the financial capitalists, the productive capitalist class has an ambiguous interest regarding development and policy, especially concerning the neoliberal policy agenda (Boito Jr. and Saad-Filho 2016). Historically, they have been supporters of state intervention in the economy to foster industrialization and economic development, orienting their interests to

[5] Brazilian Social Democratic Party.
[6] National Confederation of Industry.

industrial protection against foreign products, but recently owners of productive capital have become keen on neoliberal policies regarding taxation and labour. They desire low taxation and cheap and flexible labour. Furthermore, the rising phenomenon of financialisation has been altering the decisions and interests of the productive capitalist faction who are becoming more aligned to the financial capitalist faction and, consequently, more conflictual with the working class (Bruno, Diawara, Araujo, Reis and Rubens 2011; Epstein 2005). This trend facilitates a potential coalition between capitalist factions towards neoliberal policies.

The productive capitalist faction made their interests clear in a document analysing the Brazilian deindustrialization published by the *Federação das Indústrias do Estado de São Paulo*[7] (FIESP 2011a, 2011b). The main point of the FIESP (2011a) is that the country deindustrialization phenomena derived from a structurally costly economy - the "Brazil Cost" - causing a lack of industrial policies since the 1990s (FIESP 2011b; Ulhôa 2015, October 2nd). Those costs are influenced by high taxation and interest rates, bureaucracy, overvalued exchange rates and high costs of labour, particularly social security. In this regard, they prescribe the following policies to restore industrial investment and foster economic performance. First, they regard it as imperative to reduce interest rates and public debt and increase the supply of credit to decrease the financial cost of investing. Second, the government should focus on restructuring and simplification of the tax system, tax levies to increase fixed investments, exemption of the payroll and decreased electricity tariffs to make investments cheaper and more profitable. Third, to protect the national industry and increase its international competitiveness, it is important to implement local content policies, improve public procurement, increase fiscal incentives to research and development, and devalue the exchange rate.

The capitalist class historically holds a high level of economic power due to the drastic inequality in Brazil. This means that the class has a high capability to enforce their interests and to mobilize outside supporters. Indeed, Morgan (2017) shows that the top of the income distribution is composed of business owners, directors of banks, stockbrokers and financial sector employees, amongst others. Additionally, by 2015, the top 1% held 27.4% of total income, twice the share of the bottom 50%.

[7] Sao Paulo State Industrial Federation

4.2.Working Class

The working class comprises those who do not own capital and sell their working power for its means of subsistence. According to Saad-Filho (2014 p.10-11), the contemporary Brazilian working class has a very diversified employment pattern based on urban jobs, with low paid, poorly educated, badly trained subcontracted workers but also teachers, cops, salespeople and administrative assistants. The institutional representative of this class is in social movements such as the *Movimento dos Trabalhadores Sem Terra* (MST[8]), workers associations and trade union federations such as the *Central Única dos Trabalhadores*[9] (CUT) and trade unions. Nonetheless, as pointed out by Pochmann (2015) and endorsed by Anderson (2016), the working class has very low rates of unionisation and class consciousness, decreasing their ability to create mass mobilization to press their will.

The class's interests embrace many spheres such as labour protection, including limiting working hours, minimum wage policy, good conditions of employment, and a social welfare system comprising public social security, health and educational systems. Additionally, its interests include essential needs such as housing, basic sanitation, energy and potable water. Given the historical inequality and poverty levels in Brazil, the faction also demands social policies to reduce inequality, alleviate poverty and increase formal employment. In other words, the workers' faction would enjoy government intervention focused on an inclusive national development project.

Even though the labour laws in Brazil date from the 1940s, it was only recently - with the rise of the PT after 2002 - that the class received closer attention with inclusive social policies aiming to reduce poverty and inequality, and formalise and increase employment and growth of the minimum wage. Among the policies adopted by the PT, the conditional cash transfer program *Bolsa Familia* and a real increase of the minimum wage are the cornerstones trying to reverse the social scenario of poverty and inequality created by the Brazilian industrialization process and, subsequently, by the neoliberal project of the 1990s (Salama 2012).

Based on this context, an intense debate arose about whether the PT's social policies incited structural change through social mobility from the lower classes to the middle (Pochmann 2015; Lavinas 2017). Nonetheless, the working class represented by the bottom 50% is still very far from the top of the income distribution, capturing merely 14% of the total

[8] Landless Workers' Movement
[9] Worker's Central Union

income - less than half compared to the middle and almost one quarter of the share of the top 10%. The top 0.1%, represented by approximately 142 000 adults, grab almost the same share (12.9%) as the half of the population comprised of 71.2 million adults. Additionally, the weakness of the working class is related to the lack of mobilization, class consciousness and low unionisation since the 1950s, and to some extent related to income concentration during Brazil's industrialisation path (Pochmann 2015; Anderson 2016). In turn, this would represent a weak or absent holding power to influence their interests, explaining the class's vulnerability and decadence compared to other groups. This element makes the working class fragile as an ally because it does not hold any form of power to bring to the coalition.

4.3. Middle Class

The middle class consists of a group of wage earning workers without the means of capital that "assists the reproduction of capitalist society through the provision of services supporting the extraction, accumulation, investment, and consumption of surplus value" (Saad-Filho 2014, p. 18). The representative actors of this class are small and medium-sized business people, public bureaucrats and highly skilled workers like lawyers, engineers, doctors - a very distinct job pattern compared to the working class.

The birth of the middle class in Brazil correlates with the late rise of industrialization in the country after 1930. Before this period, the signs of manufacture and a domestic demand were scarce, mainly because slavery had ended officially only 42 years earlier. After that, the middle class was formed by the partly urban workers involved in the industrialisation process who were covered by tentative welfare system and exclusive access to durable consumption goods in the middle of the 20th Century (Pochmann 2015), while most of the population were left behind in rural and informal jobs that now form the working class. This discrepancy also meant a cultural differentiation in which the middle class had first access to universities but also to the consumption of telecommunications like radio and television.

Saad-Filho (2014) explains that the middle class could form an alliance with either the working or the capitalist class, illustrating a great disparity in the class's interests. For the first, an alliance would be based on "supporting the extension of democratic rights and distributive economic policies" (p.18). For the latter, the middle class "can incorporate a capitalist ethics of competitiveness, accumulation, and social exclusion […] leading them to support political authoritarianism in order to secure their property rights and social privileges by political,

bureaucratic, or symbolic means" (p.19). Pochmann (2015) highlights the historical conflictual relation between the working and the middle class in which the latter has a strong desire for social differentiation - thus the difficulties in the formation of alliances between the two classes

Indeed, the social policies adopted by the PT evidenced the rising conflict between the working and middle classes derived from the working class's access to goods and services that were historically exclusive to the middle and higher classes (Pochmann 2015). In other words, it shortened the distance between the working and the middle class. However, the relation between the middle class and the top classes was the opposite: social mobility did not happen but the gap in terms of income increased. These dynamics are explained by Palma (2011) as "centrifugal" and "centripetal" forces. The diminishing distance in wealth and income between the middle class and lower classes functions as a centrifugal force, reducing inequality. On the other side, the centripetal force represents the growing gap between the middle and the elite, thus augmenting inequality at the top. Morgan (2017) describes the same phenomena, calling it the "squeezed middle class". The hypothesis is that this loss of income compared to the lower classes also leads to competition in other social relations such as access to certain consumption patterns. This is an important indication of the increasing conflict between the class and PT.

In terms of holding power, the middle class has less economic power than the capitalist class, especially in the extremely unequal Brazilian society. However, they capture 30.7% of total income, twice as much as the bottom 50%. Hence, they have more holding power than the working class in economic and cultural terms, benefiting historically from better access to basic needs and services such as public and private superior education. Indeed, the household survey of 2013 shows that out of all the students enrolled in public higher education, only 7.2% were from the first quintile of the income distribution while 54% came from the three middle quintiles[10] (IBGE 2013). The implication is that the middle class can better articulate, mobilise and impose their demands against other factions and the government, particularly compared to the working class.

In sum, the Brazilian social order can be described in terms of factions based on common interests and their insertion into the society. The capitalist class represents the group with the highest holding power, who therefore have a higher ability to impose their interests upon the society. The middle class does not have as much economic power, but they hold cultural power and the ability to mobilise. Lastly, the working class is the most vulnerable group in the society, with very weak or zero holding power. As shown in Chapter 2, the PS approach

[10] In other words, the 2nd, 3rd and 4th quintiles.

views the political-economic process as a constant competition between factions leading to different policies and performance. The next chapter aims to use the class definitions presented here to focus on class interaction and conflicts relating to economic policy and performance during Rousseff's two mandates as president.

5. Political Settlements and Development: How Far Can You Go?

This chapter has two objectives. First, it seeks to present the context of the last two PT administrations under President Rousseff (2011 to 2016). Second, the goal is to describe the class dynamics and economic policies adopted and the related conflicts and tensions, considering the PS approach, during this period. The main hypothesis is that during the first mandate, there was a coalition between part of the productive capitalist faction and the working class forming a PS and setting the economic policies of the period. However, increasing conflict over economic policies evidenced the weaknesses of the PS in two different waves. First, the conflict between the government and the financial capitalist faction evidenced the weakness of the ruling coalition. Later, the second wave followed the failed attempt to reconcile with the financial faction. The rise of a competing coalition including the capitalist factions and the middle class damaged the viability of the PS. The interrelation of economic and political elements is the base of the rationality and legitimation crisis creating the ideal scenario for the collapse of the dominant coalition culminating in the impeachment of President Rousseff.

To present this hypothesis, Section 5.1 describes the development policies adopted by Rousseff's first mandate, forming a PS between the productive capitalist faction and the working class. Section 5.2 presents the first wave of conflict around the development project proposed under Dilma Rousseff's first mandate and the reaction of the financial capitalist faction and the middle class. Finally, Section 5.3 describes the tensions during the attempt by the government during the second mandate to reconcile with the capitalist factions by adopting austerity policies, which instead triggered a rationality and legitimation crisis.

5.1. Political Settlements and Economic Policy: The Coordination Behind the National Development Project

After winning the presidential elections in 2010 with more than 56% of the valid votes, Dilma Rousseff used her first speech to set the tone of her mandate in terms of policy, goals

and an alliance between productive capitalists and the working class (Rousseff 2011a). First, Rousseff stressed her eagerness to continue to improve the social policies of the previous administration focused on eradicating poverty. Second, the president emphasised the need for economic policies that foster growth without depending on foreign markets, savings and decisions. In this regard, she praised the need for financial regulation against speculation, leveraging and capital mobility and condemned austerity measures that cut social policies and investment in welfare. Therefore, Rousseff's first speech already evidenced the formation of a PS during her first administration between the productive capitalists and the working class. In other words, the government had a development project to benefit domestic capitalists distributing rents to foster private investment, while maintaining inclusive social policies, but strongly opposing financial capital and speculation.

The first few months of Rousseff's first administration continued macroprudential policies relying on the "macroeconomic tripod[11]" of the previous administrations (Cagnin, Prates, Freitas and Novais 2013). However, by the middle of 2011, the government had announced a new policy mix pursuing economic development, focusing on gains in competitiveness, that later became known as *Nova Matriz Econômica*[12] (NME), or "developmentalism rehearsal" (Singer 2015). Regardless of the label, there was a developmental effort to re-industrialise by stimulating private investment via active government intervention, meanwhile keeping inclusive social policies. The mindset was that, by reducing costs (finance, tax, electricity, etc) productive capitalists' rentability would increase, and hence they would be stimulated to raise productive investment and the working class would guarantee demand growth via consumption. In other words, the state was directing rents to the productive capitalist faction to set a growth-enhancing developmental path. Broadly, the economic policies of the NME aimed to 1) stabilise and depreciate the exchange rate to gain external competitiveness; 2) reduce interest rates to decrease the costs of credit; 3) reduce costs of investment via tax levies; 4) continue with investments in infrastructure; and 5) maintain social policies.

To regain international competitiveness, Rousseff's economic team set the goal of depreciating the Brazilian currency. The preoccupation with an overvalued exchange rate had started by the end of Lula's last mandate and later intensified with Rousseff's economic team.

[11] The Macroeconomic Tripod is a set of economic policies focusing on fiscal surplus, flexible exchange rates and inflation targeting. These policies were first adopted during Cardoso's second mandate (1999) and later continued by Lula.
[12] New Economic Matrix

To be precise, the increasing value of the Brazilian currency was increasing the country's price of exports and decreasing total exports, thus lowering the gains in the productive sector. The diagnosis was that the country had been suffering from capital inflows caused by the spill-overs of the unconventional expansionary monetary policy of the United States condemned by Finance Minister Guido Mantega[13]. Therefore, the *Banco Central do Brasil*[14] (BCB) started two measures to reverse the exchange rate appreciation tendency: 1) regulating and control capital flows and 2) widening the scope of macroeconomic policy to intervene in currency markets (swaps operations) (Mello and Rossi 2017). Those measures aimed to stop the speculative attacks and to reduce the volatility of the exchange rate, enabling the BCB to manipulate the foreign currency market. The latter was important given the coordination between the Central Bank and the Ministry of Finance in pursuing the developmental goals set by the administration, because it was thought that a high and stable exchange rate should foster investment and exports.

Additionally, since September 2011, the government started to reduce interest rates to stimulate investment. By the end of this cycle (September 2011 to April 2013), the basic interest rate, Selic[15], was to have dropped from 12.5% to 7.25%. According to Minister Mantega (2012, December 19th), reducing the Selic would stimulate private investment by reducing the cost of finance and directing capital to productive investment by decreasing financial gains. Confident, Mantega stressed that economic growth "will be dictated by production. The financial activity will adapt itself and it will find new paths of rentability supporting productive activity". About the new conjuncture for the financial capitalists, he endorsed that "the era of easy money without risks was left behind, despite the weeping and gnashing of teeth of the few that benefited from that situation" (Mantega 2012, December 19th).

The fight against the high interest rates intensified when Rousseff made a public pronouncement during the celebrations of May 1st in 2012. By then the Selic had already dropped three percentage points. In her discourse, she clarified that the government was working to build a competitive economy, and devoted to reducing the interest rates for consumers and producers. Furthermore, Rousseff exposed her discontentment with the

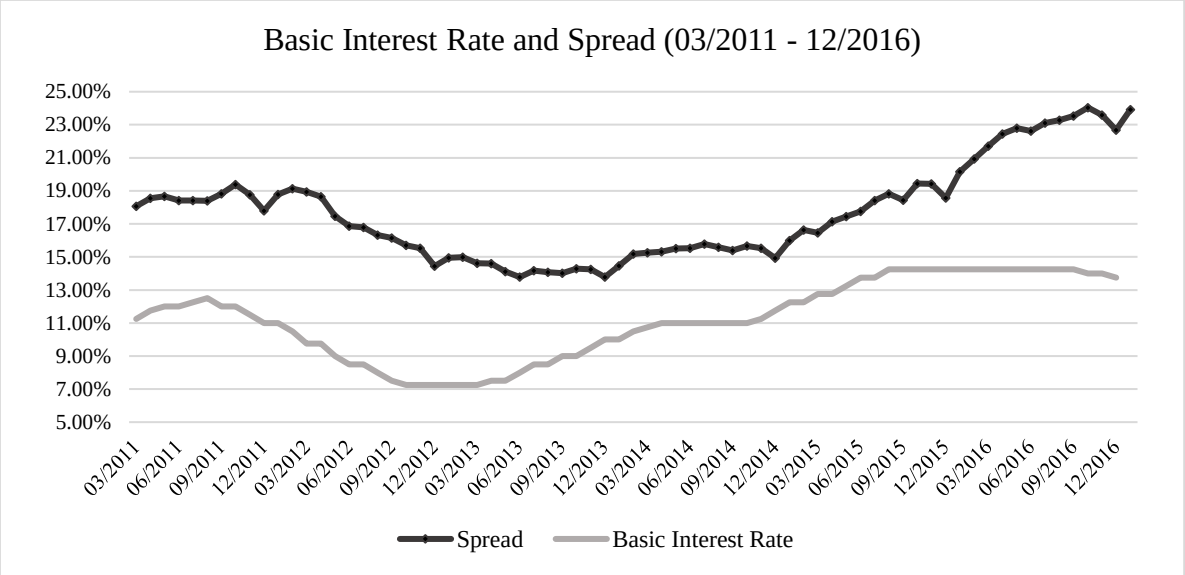
[13] In September 2010, Guido Mantega - while finance minister of President Lula – criticized the exchange rate policy adopted by the United States, Europe and Japan by saying, "We are in the midst of an international currency war […] This threatens us because it takes away our competitiveness." (Soto and Otoni 2010, February 8th). By the beginning of September 2010, US$1 was worth around BRL1.73.

[14] Brazilian Central Bank.

[15] The basic interest rate set by the BCB is known as Selic (*Sistema Especial de Liquidação e de Custódia*). It is the interest rate set by the monetary authority for its operations, and thus serves as the floor for the credit market. The difference between the basic rate and the rate applied de facto is known as spread.

Brazilian financial sector's lack of response in reducing the spread: "It is unacceptable that Brazil, with one of the most solid and profitable financial systems, continues with the highest interest rates in the world […] the financial sector, however, cannot explain this perverse logic" (Rousseff 2012). The perverse logic she was referring to was precisely the size of the banks' spread in which they got financed according to the Selic (7.5% annually by 2013) and charged over 40 times that (approximately 289% annually by 2013) for consumption credit (BCB 2018). This fact evidences the high power of the financial faction for maintaining their income extraction and the economic structure even after a confrontation with high political and economic authorities. Figure 2 illustrates the reduction of the Selic and the evolution of the spread for all credit operations.

Figure 2: Basic Interest Rate and Spread



Source: Author's representation based on BCB (2018)

In terms of industrial policy, Rousseff announced the *Plano Brasil Maior* (PBM)[16] by the end of 2011. The PBM was another set of policies aiming to push productive investment and to defend the national industry in the face of the international competition. During the launch of the program, Rousseff gave a speech in a developmental tone, citing the importance of interaction between the national industry and the state to encourage employment and to

[16] The PBM was a continuation of the Politica de Desenvolvimento Produtivo (PDP – Productive Development Policy) adopted by Lula from 2008 to 2010 focused in increasing aggregate investment. The PBM shifted the focus towards investment in technological, organisational and corporate investment.

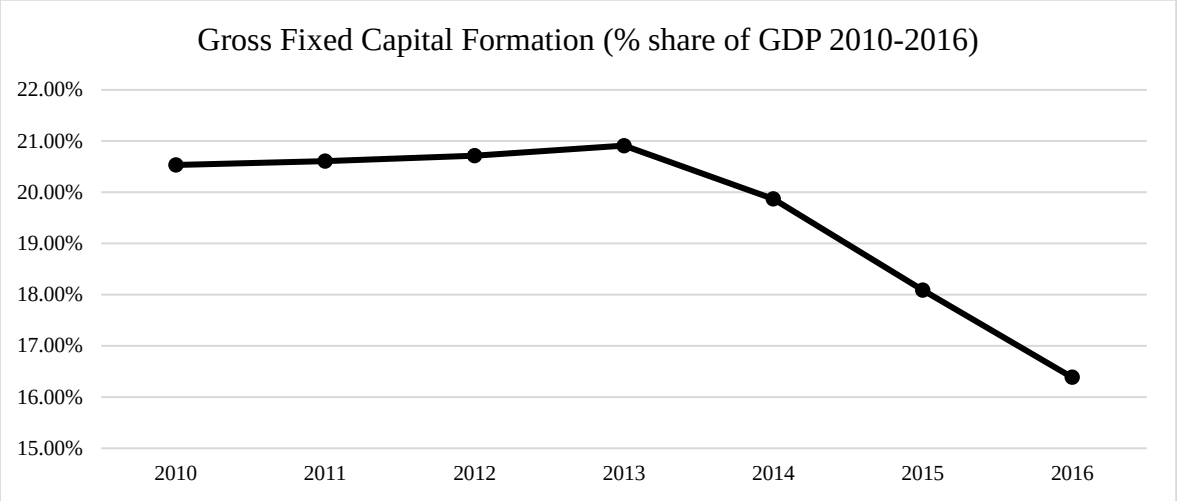
strengthen the country in the international market[17]. She made clear that "the industrialists and the workers in Brazil trust that the government is on their side. The national industry has me as an ally, a conscious partner for the difficulties but also for the potential of our productive sector" (Rousseff 2011b). Largely, the PBM contained policies around 1) tax levies for investment and payroll exemptions for sectors related to exports; 2) facilitating credit for investment; 3) giving preference to national products in public procurement. The plan was very much aligned with the demands of the productive capitalists in the document published by FIESP a few months before, mentioned above, because it aimed to reduce costs related to production in order to increase the rentability that should lead to more productive investment. Thus, it evidences a coalition between the productive capitalist faction and the government in which the former benefits from the distribution of rents produced by the economic policies adopted by the latter. This relation would be sustained if it had enough legitimacy support and if it fostered economic growth.

The PBM was a sectoral plan, targeting key sectors in the economy including durable goods, labour intensive sectors, intermediary products and exports. The aim was to reduce the cost of private investment to reach an investment share of GDP of 22.4% and 1.6% of participation in the international trade by 2014. For this, the *Banco Nacional de Desenvolvimento Econômico e Social*[18] (BNDES) had the key role of administrating and directing investment thorough subsidised credit that figured around BRL900 billion in total disbursements from 2011 until 2014. However, Di John (forthcoming) shows that the PBM had an internal contradiction because it fostered world-class innovative national companies to spread worldwide, while it left other companies to crash with deindustrialisation. This dynamic weakened the PS since it led the faction to an ambiguous support for the dominant coalition. Figure 3 illustrates the evolution of gross fixed capital formation. It increased slightly up to 2013 but afterwards decreased, thus calling into question the effectiveness of the developmental project in fostering investment. The different views of this failure will be discussed in the following sections.

[17] Rousseff closed her speech citing Celso Furtado, the most important Brazilian economist and a key historical figure in Brazil's development.

[18] National Bank for Economic and Social Development

Figure 3: Gross Fixed Capital Formation (2010-2016)



Source: Author's calculation based on World Bank (2018)

Regarding social policies, Rousseff's administration maintained those of the PT's previous administrations, based on social inclusion via employment and wage increases to boost consumption, guaranteeing demand growth with greater equality (Lavinas 2017). The cornerstones were the conditional cash transfers *Bolsa Familia*, the real minimum wage valorisation policy and the housing program *Minha Casa, Minha Vida*[19] (MCMV). The first reached approximately 14 million families by 2013 and together with other social programs was helpful in reducing the share of the population living below US$1.90 a day from 12.3% to 3.6% between 2002 and 2014 (Campello and Neri 2013; World Bank 2018). The second achieved more than 60% real increase between 2003 and 2014 and was hailed as "the silent revolution carried out under the Worker's Party […] the most effective social policy of the entire period" (Lavinas, 2017 p.25-26). Alongside, formalisation increased by 26% during the same period and unemployment would have reached the lowest point ever recorded, 6.8%, by the end of 2014 (IBGE 2014). However, unionisation of the labour force stagnated below 20% after peaking around 30% during the 1980s (Pochmann 2015). The third, MCMV, was a program seeking to alleviate the housing deficit by giving subsidies to facilitate the purchase of a house by families with low and medium incomes[20].

The social policies were in line with the development project and the coalition under Rousseff's first mandate. On the one side lay the coalition with the productive capitalist class

[19] My House, My Life

[20] The program had three different categories of subsidies based on a family's gross income. The upper band is for families with total gross income up to BRL5000 monthly.

which received rents from macro and industrial policy. On the other side, the distribution rents to the lower classes via social policy supported demand growth and stimulated productive capitalists to join the wave so that the virtuous cycle of development could emerge (Lavinas 2017). The settlement would endure until its political and economic viability lasted. Nonetheless, class confrontation from the excluded faction originated in two waves, damaging the government's economic and political stability. The first wave represents the discontent of the financial and middle classes during Rousseff's first mandate. The second wave of conflicts started a few days after the start of the second mandate of Rousseff and escalated with the alliance between the entire capitalist class and the middle class demanding the impeachment.

5.2.First Wave of Conflict: Do You Know Who You Are Speaking With?

The development project build by the PS under Rousseff's first mandate reached parts of the productive capitalist faction and the working class via economic policy. However, it excluded important factions, for instance the financial capitalist faction, contradicting the distribution of power in society. This resulted in increasing competition between the government's developmental project and the neoliberal inclination of the excluded factions. Amid this tension, the use of the media and the critique of government intervention were instruments of mass mobilisation detrimental to the government's development project. Therefore, the first wave of conflict had two fronts. First, the financial capitalist faction struggled around macroeconomic policy, while the second front relates to the discontent of the middle class channelled by the media in the first signs of an alliance with the capitalist class against the government. Even though these tensions led the government to change its economic policies, it did not represent a fall for the PS, as Rousseff got re-elected promising a progressive project. Later, the conflict scaled up, comprising the productive capitalist class which is studied in the next section.

Within the PS, the productive capitalist class had mixed feelings about the government. On the one hand, the government had attended to the demands coming from the productive capitalist faction through the PBM. Indeed, the President of the CNI, Robson Braga de Andrade, praised the developmental policies adopted by the government, especially those related to payroll tax exemptions and cuts in the interest rate (CNI 2012a). On the other hand, the same CNI released a survey one year after the launch of PBM which had canvassed 784 firms from across the country. The research found that 82% of the firms questioned believed the policies were adequate, but insufficient to stimulate productive investment and competition

(CNI 2012b). The ambiguity of the productive faction's support characterises the weakness and instability of the dominant coalition, in the sense that the PS could collapse if a faction turns against the dominant coalition. The sectoralism of the industrial policy led to "the fall of the rest" in the sense that it benefitted only part of the productive faction while the unprotected were left to the mercy of economic performance (Di John forthcoming, p. 201).

Regarding the factions excluded from the settlement, the monetary policy of Rousseff's first mandate created conflict between the administration and the financial capitalist faction, evidencing strong opposition between the two groups. The tension intensified with the financial faction's unconformity to the government intervention over the inflation targeting system and the imposition of capital controls. This was clear when The Economist (2012, December 8th) released an editorial heavily counterattacking Brazilian authorities, writing that they were trying to dictate over the economy by forcing the reduction of profits of banks, electricity companies and infrastructure providers. The criticism was followed by advice much in line with the interests of financial capital:

> Instead the government should redouble efforts to cut the Brazil cost—by, for instance, tackling labour laws—and thus letting the private sector's animal spirits roar. […] she should fire Mr. Mantega, whose over-optimistic forecasts have lost investors' confidence, and appoint a new team capable of regaining the trust of business. (The Economist, 2012, December 8th)

Nationally, the financial capitalist faction used the arguments around inflation and public expenditure to attack the dominant coalition, especially after Rousseff had declared that she "does not believe in policies and inflation combatting that reduces economic growth" (Leo 2013, March 27th). By mid-2013, the accumulated inflation was around 5.53% (BCB 2018), within the upper limit imposed by the central bank[21]. Most important, the expected inflation for the next 12 months, calculated by the BCB based on market expectations, was 5.43%. There were no signs of accelerating inflation over the upper band of 6.5%, hence no need to raise the Selic. Nonetheless, the financial faction created a great tension around the decision to cut interest rates and the need to contain inflationary pressures. Two important actors were used to legitimize the argument: former central bankers and the media. Ilan Goldfajn[22] criticised the actions of the BCB, saying that: "Inflation does not fall magically. It does not fall because the

[21] The inflation targeting system in Brazil was based on a two-band system in which the monetary authority would define a target and two bands, a lower and an upper band. If the BCB failed to keep the year's inflation within the band, it was obliged to release a public disclosure about it. In the Brazilian case, by 2013, the target was 4.5% cumulative inflation by the end of the year, with 2.5% and 6.5% as lower and upper band, respectively.

[22] Ilan Goldfajn was previously the chief economist of Itau Unibanco and the president of BCB during Temer's administration).

Central Bank decides to raise their voice. It falls when supply and demand growth encounter the equilibrium" (Valente and Oliveira 2013, March 25th). Lastly, Alexandre Schwartsman[23] suggested expansionary fiscal contraction policies to restore economic growth: "The way out is to slow down the economy. It is to dismiss" (Valente and Oliveira 2013, March 25th). Therefore, the capitalist class relied on arguments around macroeconomic elements to undermine the government in a movement described as "economic terrorism" (Paulani 2015, p.93). Why is the argument over interest rates and the orthodoxy around inflation so important? Despite the huge spread of the banks, high interest rate policy means that the financial capitalist faction can extract more rent from risk-free government bonds; therefore, reducing the Selic meant reducing their gains. Indeed, Di John (forthcoming) shows that 84% of banks' total revenue in 2010 was from fixed income securities.

The increasing contestation by the competing factions led the monetary authority to revoke the expansionary policy. The situation of economic policy suddenly changed when the central bank decided to increase the Selic after April 2013, a decision incompatible with the government's developmental policies as it would increase the cost of credit and possibly slow down the economy. By the end of 2013, the basic interest rate had reached 10% (an increase of 2.75 percentage points in eight months) and the BCB justified the increase in terms of gaining credibility by containing inflationary pressures. The decision created a duality within the government. The BCB wanted to slow down the economy to ensure stability while the federal administration would accept inflation to increase investment and expansion (Singer 2015). This evidenced an internal contradiction within the government in which the BCB would give preference to policies aligned to the financial capitalists while the productive capitalists would benefit from the industrial policy proposed by the development project. These inconsistencies evidence the weakness of the administration, represented by its internal conflicts.

Therefore, the BCB's decision represented an important moment for the stability of the dominant coalition because it evidenced an internal inconsistency in the dominant coalition, one part towards growth and the other to macro stabilization. The working class was strongly against the change in the BCB's decision. In a press release, the CUT (2013) criticised:

> The CUT believes that raising interest rates attacks the sustainable development that generates employment and income, reduces the domestic market, increase the price of credit and only serves the interests of speculative capital.

[23] Alexandre Schwartsman was the director of the BCB during Lula's first mandate, and previously the chief economist of Bank Santander Brasil.

Meanwhile the productive capitalists, via an official statement by the CNI, attacked "the new cycle of increasing the interest rates [which] will affect the entrepreneur's confidence and [which will] jeopardise investment that is essential to reactivate the economy" (CNI 2013). In other words, the new monetary policy was against the interests of the productive faction and working class, part of the PS. But it was in line with the interests of the financial faction.

Later in June 2013, the conflict scaled up, encompassing the rage and mobilization of the middle class against the dominant coalition during the "Demonstrations of June", also known as the "Journeys of June" (Singer 2013). The importance of these events was the public mobilisation against the ruling coalition, notably the first evidence of an alliance between the middle and the capitalist classes against the PS. Singer (2013) notes the roots of the demonstrations were a "new left" movement criticising the increase in public transport prices and demanding free public transportation. Nonetheless, as the demonstrations became more popular, the demands and ideologies diverged more from the initial demands. The demonstration on June 20th, representing the highest point in terms of public participation, declared themselves more politically aligned to the centre or the right, unlike the pattern of the initial movements (Singer 2013).

Another central point regards the shift in media coverage of the demonstrations: from condemnation and the use of terms linked to violence, to manipulation and support shifting to terms associated with democracy and peace[24]. These demonstrations symbolised the rising dissatisfaction of the middle class and their growing conflict with government. Souza (2017) argues that the middle class lost its privileges and social distinction with the rise of the lower classes. The rising discontent also correlates to income evolution during the PT's governments in which middle class incomes only increased 3.3% while incomes at the bottom of the distribution gained 20.3% for the period 2002 to 2015 (the centrifugal hypothesis). The distance between the middle and the top also increased, with the income of the top 0.1% increasing 9.3% for the same period (the centripetal hypothesis). Furthermore, the media had an important role channelling the rising discontent and conflict into discourses of hate and anti-corruption mainly directed at the PT and the president. Indeed, the mobilisation of the middle class created institutionalised right-wing social movements like *Movimento Brasil Livr*e[25] (MBL) and *Vem*

[24] In an interview to the journal Brasil de Fato (01/07/2017), Diego Soares Thiago, a member of the *Movimento Passe Livre* (Free Fare Movement) that started the demonstrations argued "The big media saw they could not delegitimize our claims, so it manipulated the demands. In a way, it called the middle class to take part. A depoliticised middle class" (Bernardes 2017)

[25] Free Brazil Movement

Pra Rua[26]. Later, they would be main pillars of mass mobilisation and contestation of the dominant coalition, supporting the impeachment of President Dilma Rousseff.

In response, Rousseff proposed five pacts to unite the nation in the hopes of restoring political viability in favour of economic development, wherein two propositions stand out. First, full commitment to fiscal responsibility, control over inflation and economic stability. Second, the proposition of political reforms with democratic participation via a referendum. The turn to fiscal responsibility was the confirmation of the BCB's policy shift in 2013. This meant less leniency with inflation and public expenditure, therefore requiring increases in basic interest rates and cuts in government spending. The decision went against the working class and some parts of the productive capitalist faction to please the financial faction and contain the conflict. The second pact, the political reform, was the government's attempted to respond to the growing frustration and decreasing legitimacy. Nonetheless, the deadlock in the Brazilian Congress postponed the possibility of political change for a future mandate.

The following months of Rousseff's first mandate would focus on the presidential elections of 2014. It came down to the competition between two different projects, Rousseff and the PT with a social developmental project against Aécio Neves, and PSDB with the neoliberal discourse of economic stability via price controls and cuts to public expenditure. During campaigning, Rousseff emphasised extensively the social advances in the PT's mandates, while Neves chose inflation and government inefficiencies as his main argument with an emphasis on inflation and constant critiques of the government's intervention in the economy. However, the first wave of conflict between excluded factions and the PS did not result in rupture as Rousseff got re-elected. However, it showed that the government had entered into a bloody fight against a very powerful opposition, the financial capitalists, who, in turn, harshly criticised the developmental project and pressured for a return to the "macroeconomic tripod", austerity, and social reforms aligned with their interests. Indeed, the increasing conflict not only demonstrated the contradictions between different figures within the state, but spread to the middle class through media manipulation.

5.3.Second Wave: In the Name of Economic and Political (In)Stability!

Despite the first wave of clashes towards the end of the first mandate, Rousseff won the elections with 51.6% of the votes, which was, however, a narrower margin of victory than 2010.

[26] Come to the Streets

Nevertheless, the conflicts between factions continued to grow, and were materialised by the tensions around corruption investigations – "*Lava Jato*"[27] - particularly at the end of 2014. The rising instability of the PS demanded changes to restore governability. This meant either mobilising mass legitimation or acquiring the support of powerful groups by attending to their interests. The new administration opted for the latter, drastically changing its approach concerning economic policies and trying to gather powerful support from the financial capitalist class by pleasing them with austerity policies designed to restore the deteriorating economic and political stability. However, the strategy failed by further damaging both the economic and political viability of the PS.

The economic crisis coming from the wrong choice of economic policy leaked into the political sphere, triggering a rationality crisis. The legitimisation crisis arose with rising class confrontation and the government's loss of mass support. The interrelation of these two effects and the interdependence of the political and economic dimension through the feedback mechanism underpinned the collapse of the PT's political settlement. Indeed, the decision for austerity represented a central point in the collapse of the PS for four reasons. First, the attempt to reconcile with financial capitalists not only failed but also aggravated the economic recession. Second, the capitalist class saw the opportunity to form a strong competing coalition against the government demanding the impeachment. Third, the media mobilised the middle class to join the movement against the collapsing PS, giving mass support and legitimation to the competing coalition. Fourth, the legitimation deficit of the government also increased through the lack of support the working class, arising because, first, they do not hold enough holding power owing to their inability to mobilise, and second, the imposition of the austerity agenda increased the distance between the government and the class, hence damaging the settlement's viability and enabling the undemocratic overturn.

5.3.1. Economic (In)Stability: Taking the wrong turn

Right from the start, the new administration had to deal with increasing worries about the economic performance since the end of the first mandate which had 0.5% GDP growth by 2014. Overall, household consumption and to some extent net exports carried the economic performance up to 2014, while gross fixed capital formation growth gradually decreased, pushed by the manufacturing sector that had plunged -4.69% by 2014. Indeed, these conditions

[27] Car Wash

show the failure of rent distribution by the central government via NME to stimulate domestic private investment. Many are the economic explanations for the economic recession and the policies to leave it. The fact is that the government's decision to form an alliance with the capitalist class through austerity policies not only failed to restore growth but aggravated the economic scenario. Moreover, the failure of the dominant faction to steer the economy represents one pillar of the political crisis proposed by Habermas (1973). The economic performance was one important element that, together with political elements dealt with in the next section, created the "window of opportunity" for the collapse of the PS.

Table 1: Contributions to Economic Growth, Exchange Rate and Inflation Rate in Brazil (2010-2016)

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Gross Domestic Product	7.53%	3.97%	1.92%	3.00%	0.50%	-3.77%	-3.59%
Household Consumption	2.80%	2.45%	2.32%	2.16%	1.56%	-1.52%	-2.13%
Gross Fixed Capital Formation	2.98%	0.89%	0.51%	0.82%	-0.94%	-2.47%	-2.29%
Government Consumption	0.80%	0.39%	0.22%	0.93%	0.36%	-0.17%	-0.27%
Net Exports	-0.95%	-0.24%	1.12%	0.91%	0.48%	-0.40%	-1.10%
Inflation Consumer Prices (annual %)	5.04%	6.64%	5.40%	6.20%	6.33%	9.03%	8.74%
Average Exchange Rate (Dollar/Real)	1.76	1.67	1.95	2.16	2.35	3.33	3.49

Source: Author's calculations based on World Bank (2018)

The diagnosis and policy prescriptions to overcome the crisis are diverse. Most of the explanations, including the one from the government, involve the decline of commodity prices, but the central arguments differ greatly from one another. To facilitate the presentation of the different views, I shall divide them into three strands: neoliberal, New Developmentalism and Social Developmentalism[28].

First, the neoliberal branch argues that the Brazilian economy suffered from a fiscal crisis caused by bad administration and government intervention from the previous mandates. Barbosa Filho and Pessoa (2017) argue that the PT's choice to lower the basic interest rate and interfere in the exchange rate had ideological motives and they were, in fact, costly, inefficient and, ultimately, reduced economic efficiency. Therefore, following this view, the way out of

[28] The division follows the concepts suggested by Amado and Mollo (2015).

the crisis would be to reduce state intervention to minimise inefficiencies in the economy. Moreover, it would be essential to restore 'sound' macroeconomic policies balancing public spending and controlling inflation with rigorous inflation targeting. This is a necessary condition to restore credibility and confidence in order to restore investment and economic growth. Clearly, this diagnosis and policies correlate to the interests of the financial capitalist faction.

Second, New Developmentalism proposes that the economic crisis is the outcome of long-term structural problems such as the early deindustrialization caused by 'Dutch disease'[29] (Bresser-Pereira 2015; Oreiro and Marconi 2016; Nassif, Bresser-Pereira and Feijo 2018). The argument is that the country has been losing international competitiveness because of an overvalued exchange rate and a decaying industrial sector pressured by the commodity sector's rentability. Bresser-Pereira (2015) argues that trade liberalisation and the macroeconomic policies of the 1990s created structural problems because monetary and exchange rate policy harmed the development of industries. These dynamics would, in the long run, show the weakness and instability of the economy in the face of an adverse international scenario such as the declining commodity prices. Hence, according to this view, the policies to reverse the deindustrialization process should include 1) an exchange rate policy to prevent the 'Dutch Disease' from boosting manufacturers to export; 2) a fiscal policy which aims for a primary surplus to increase the internal savings capacity; 3) an industrial policy to create new areas of comparative advantages and 4) constructing a strategic pact between government and industry in the name of national development, in which the first would create the support for the second, for instance in public-private partnerships.

Lastly, the Social Developmentalism strand, headed by the post-Keynesian framework, argues that the crisis combines conjectural and structural problems. The first concerns the economic plan of 2011 and 2015 which were crucial to trigger the crisis. The decision to shift fiscal policy from direct public investment to indirect private investment was unfortunate, because "the multiplier effect of public investment is much higher than the expansionary impact of the subsidies" (Loureiro and Saad-Filho 2017, p.17). And the austerity plan aggravated economic performance (Serrano and Melin 2015; Serrano and Summa 2015; Salama 2015). The structural problems include income inequality and financialisation because the first suppresses the potential growth led by demand while the second impacts negatively on the exchange rate and the industrial composition of the economy and income inequality

[29] A negative impact on the economy caused by an overvalued exchange rate damaging the economy but rentable for the primary goods.

(Kaltenbrunner and Painceira, 2016; Salama 2012, 2015 and 2016; Palma 2009, 2013). Policies to restore economic performance should include an emphasis on income redistribution, capital controls, tax progressivity, industrial policy and strong public investment to regulate the economic cycle. This approach concentrates on the poorer factions because it focuses on income redistribution, but does not exclude productive capitalists as they should gain from increased demand and public investment policies.

Faced with the challenge of reversing the worrying economic scenario, Rousseff argued that to regain economic growth, the economy must "balance the public accounts, increase domestic savings, expand investment, and increase productivity" (Rousseff 2015). Later, it would become clearer that the new administration had opted to embark on the neoliberal economic agenda attempting to form a coalition with the capitalist class[30]. Indeed, the turn towards austerity meant securing the payment of government securities to investors at a high interest rate. However, the decision contradicted the government's social plan advertised during the election because it cut expenditure on public education and health. This is a central element of the legitimisation deficit related to working class support, dealt with in the next section.

The neoliberal choice followed the nomination of Joaquim Levy - director of the second largest private bank in Brazil - as Finance Minister in an attempt to form an alliance with the financial faction. The decision represented a choice in the direction of orthodox macroeconomic policies to "calm down the markets". In his first press release, Levy confirmed his inclination to the neoliberal agenda of expansionary austerity, in line with the interests of the capitalist class. He argued, "The immediate objective of the government and the Finance Ministry is to establish a target for a primary surplus […] To achieve these goals is fundamental to increase the confidence in the Brazilian economy and it will create a base to regain economic growth" (Levy 2015). Following the decision, the Brazilian stock market grew more than 5% in one day showing the financial faction's contentment with the decision.

To reverse the degrading economic scenario, the new economic authority focused on balancing the public accounts by increasing revenue and cutting costs. Concerning costs, the government adjusted a series of prices which it administrated (transport, energy, water supply, for instance). But the central point was to cut BRL69.9 billion in discretionary costs. It meant revoking most of the economic policies adopted in Rousseff's first mandate, including payroll tax exemptions and public investment. It also involved cutting costs targeted at public health,

[30] This should mimic the alliance proposed by Lula in 2002, relating to the "*Carta ao Povo Brasileiro*" (Letter to the Brazilian People) well known in the literature (See Morais and Saad-Filho 2011).

education and city development[31] (*Ministerio do Planejamento, Orçamento e Gestão* 2015). Regarding revenue, the decision was to increase taxes on private firms' revenue, fuel and credit for consumption[32]. The contractionary policy also meant increasing the interest rates to suppress inflationary pressures due to the pass-through effect from rising taxation and administrated prices, reaching 14.25% by the end of 2015 (2 percentage points increase over the year) (BCB 2018).

Throughout 2015, economic performance worsened. By the end of the year, GDP had shrunk -3.77% and by 2016 -3.59%, despite the government effort to overcome it. Whereas investment did not respond to the "confidence fairy" and followed the same negative path, gross fixed capital formation decreased since 2014, accumulating a drop of -29.5% by 2016 (Carvalho 2017). The unemployment rate saw its first rise since the 2008 crisis, increasing from 6.8% to 8.5% by 2015 and to 11.5% by 2016. Regarding the public accounts, 2014 was the first year during all of the PT's administrations that had a primary fiscal deficit, 0.4% of GDP, but this would repeat in the following years[33] (BCB 2018).

Joaquim Levy would not even last one year as Minister of Finance. Some people explain that the incoherence between him and the rest of the government justifies the short mandate. Arminio Fraga Neto claimed, "Levy is an island of competence in a sea of mediocrity" (Cantanhêde 2015, January 25th). Similarly, Aécio Neves declared "Levy for Finance Minister in the PT's government is the same as inviting someone important from the CIA to command the KGB" (Ulhôa 2014, November 11th). In later statements, President Rousseff declared that the mistake was the decision reduce taxes, first because investment is pro-cyclical, second because "instead of improving the productivity capacity and salaries, they [capitalists] pocketed the money and augmented the profit-rate"[34] (Rousseff 2018). According to her, the economy was going through a fiscal crisis intensified by the international economic crisis and the decision to nominate Levy was not ideal, because "Levy did not match the moment"; he thought "the economy could come out of the crisis fast" (Rousseff 2018).

Nonetheless, the austerity program harmed the poor and the middle class, inciting conflict against the government. The working class and the middle class suffered the biggest losses in incomes during 2014 and 2015: -10.06% and -9.66% respectively (WID 2018). Apart

[31] The project intended to cut and estimated BRL11.77 billion, BRL9.43 billion and BRL17.23 billion respectively (Ministério do Planejamento 2015).
[32] Increase on PIS/Cofins (taxes over firms' revenues) from 9.25% to 11.75%, Cide (taxes over gasoline) increased the price of fuel by 22 cents and IOF from 1.5% to 3%.
[33] By 2015 and 2016 the deficit was 2.0% and 2.6% of GDP respectively (BCB 2018).
[34] Interestingly she continued by saying "…it [the capitalist reaction] is in textbooks; this is not a surprise that they have done that" (Rousseff 2018).

from the hike in unemployment, the decision to raise taxation and capitalist protection via pass-through resulted in new inflationary pressures damaging to the lower classes. By 2015, inflation reached 10.67% owing to increases in foodstuff, energy, transport and services. Ordinary services like domestic energy and public urban transportation increased 51% and 15.1% (IBGE, 2015). Therefore, if someone had to pay for the "fiscal crisis", it would not be capitalists.

In sum, the already decaying economic performance plunged further after the government took a wrong turn towards austerity measures. This showed the failure of the dominant coalition to trigger a growth-enhancing development path, leading to the PS to be unviable economically. The economic crisis leaked into the political sphere to manifest a rationality crisis in which the ruling coalition failed to prevent economic crisis that, in turn, increased the discontent of the masses leading to legitimation deficits and political crisis. As economic instability breeds political instability, the growing legitimation deficit and role of the feedback mechanism will be dealt with in more detail in the next section.

5.3.2. Political (In)Stability: Legitimation Crisis

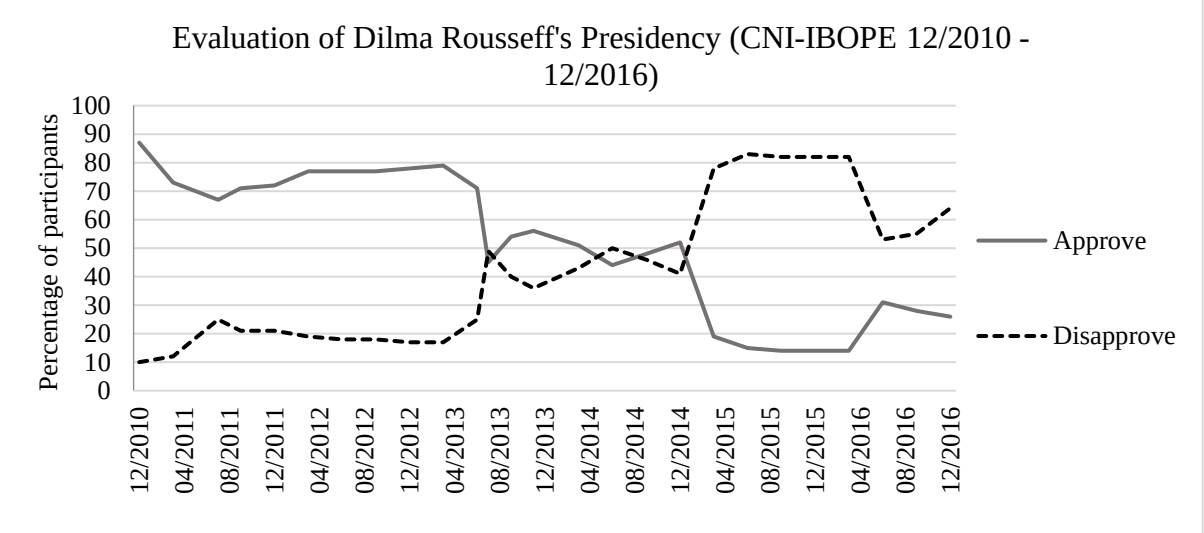
The decay in political viability of the PS and the trigger of a legitimation deficit have different dimensions comprising various spheres of conflict in the three powers (administrative, legislative and judiciary), corruption scandals, and economic and distributional conflict to cite a few. Certainly, a complete study of the Brazilian crisis needs to include all those features. However, this study is limited to crises emanating from the tensions around economic policies. Therefore, the hypothesis is that the economic choices of Rousseff's second mandate were crucial to the decay in legitimation for two reasons. First, it fostered the rise of a capitalist alliance, supported by the mobilisation of the middle class, against the government, demanding an impeachment. Second, the PT's decreasing popular support, especially from the working class, weakened the PS and facilitated contestation from excluded factions.

Despite having won the 2014 elections, government legitimation had been decreasing since 2013. The surveys about government rejection display these trends, illustrated in figures 6 and 7. Right after the "journeys of June 2013", the government's rejection rating increased from 17% of the participants surveyed to 49% (March to July 2013). The overall picture remained divided until the elections in which the rejection rate was around 46%. The drastic shift originated after the new administration and the decision towards austerity in macroeconomic policies together with the corruption investigations spread by the media. These

elements contributed to a drastic increase in rejection ratings, reaching 78% by March 2015 and continuing to rise throughout the year.

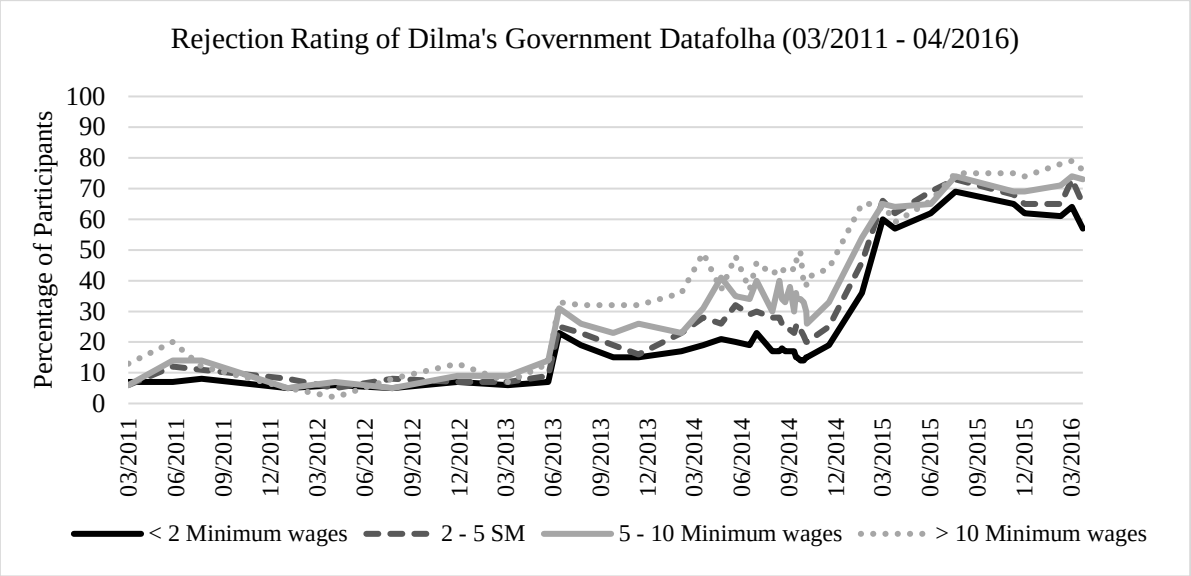
When dividing the rejection rating by income, it is noticeable that the rejection rating had higher increases in upper-income classes. This suggests that tension between different factions manifested in two stages: 1) the first wave of conflict around changes in the monetary policy and the demonstrations of 2013 and; 2) the second wave after the turn to austerity and the impeachment process in 2015. The top income share, representing the capitalist class, had the highest rejection rating since mid-2013 with considerable increases by the end of 2014 and during 2015. Rejection levels from the lower income bracket (up to two times the minimum wage) remained low (less than 20%) until 2015, despite the increase after the demonstrations of 2013. Therefore, unlike other groups of the society, the lower income factions continued to support the government until the elections of 2014 reverting the trend after but after the second mandate correlated to the choice towards the neoliberal policy agenda.

Figure 4: Evaluation of Dilma Rousseff's Presidency



Source: Author’s calculation based on CNI-IBOPE (2017)

Figure 5: Rejection of Dilma Rousseff's Government



Source: Author's calculation based on Datafolha (2016a)

Additionally, two trends are worth highlighting: first, the failure of the government in gaining the expected support from the capitalist class that, in turn, intensified their conflict with the government. Second, the administration lost its credibility in relation to its supporters, because the economic project adopted after the election was opposite to the one proposed during the presidential campaign. Alongside the economic crisis, the legitimation crisis would create the ideal conditions for the collapse of the dominant coalition

Indeed, the economic policy of the new administration was ideal to the interests of the financial capitalist faction. Even the *Federação Brasileira de Bancos*[35] (FEBRABAN 2015) praised "the compromise of the government in promoting fiscal balance that is an indispensable condition to pave the way to resume the desired economic growth in the country [which] is a very important sign to restore the confidence of economic agents and the future resumption of investments". Once again, the argument lies in the need to balance the public accounts to restore confidence. Moreover, the movements in the Brazilian stock market show a correlation between the financial capitalists' interests and the political conjectures presented. For example, following the resignation of Minister Levy, the Brazilian stock market (*Ibovespa* Index) decreased by 2.99%. The day after the president of Congress opened the impeachment process,

[35] Brazilian Federation of Banks

the same index increased by 3.29%. This trend would repeat: the financial index would go up after negative events related to PT, Rousseff or Lula, and down after positive events[36].

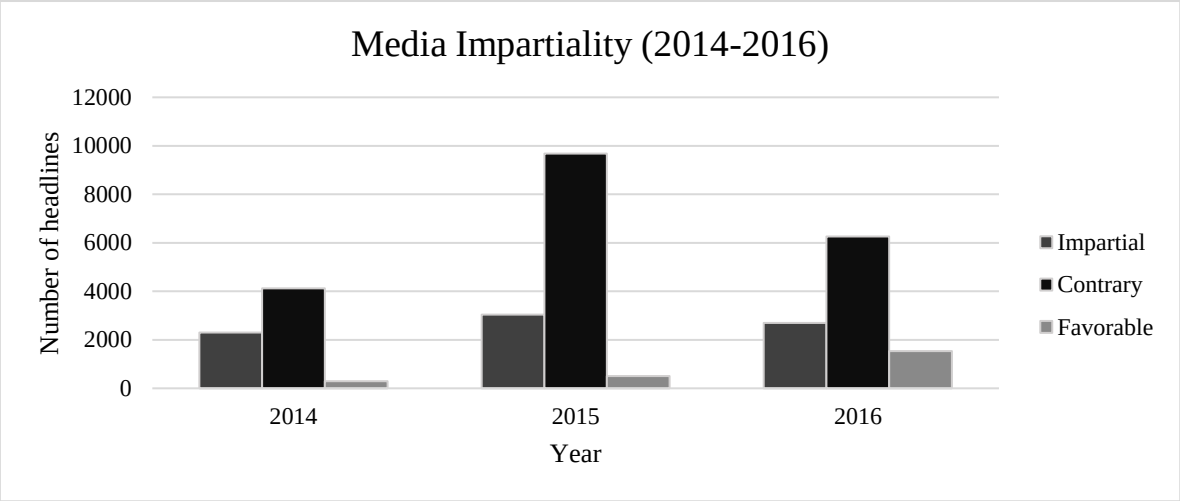
At first, the productive capitalist faction praised the economic team of the new administration, but as policies unfolded and the rents from the developmental policies ceased with austerity, they turned against the dominant coalition. Moreover, they officially started the campaign "*Nao Vou Pagar o Pato*"[37] that, later, would also support the middle class in the mobilizations in favour of impeachment. The main argument was that the government failed in steering the economy towards a growth-enhancing path and the economic crisis was a burden to production. Indeed, the campaign motto was: "Every time the government needs to cover its costs, instead of cutting expenses, it prefers to pass the costs forward. Guess who is left with the burden? That's right, firms and the workers that have been suffering from the increases in inflation rate, interest rate, exchange rate and energy" (Skaff 2015). At the end of 2015, FIESP formally declared its support for the impeachment process a few days after the Congress had approved the process, blaming fiscal expenditure, the loss of credibility of the government and the loss of confidence to invest (FIESP 2015)[38].

As argued earlier, the media is an institution related to the capitalist class and it was essential to spread the class's interests and to influence other factions. To understand the evolution and bias of media figure 8 compiles the coverage of three subjects: economy, Rousseff and federal government from 2014 to 2016. This was done using the Manchetometro[39] (2018) database that studied the principal media vehicles, including newspaper and television, in Brazil since 2014. The aim is to exam the impartiality of press coverage based on the method proposed by Figueiredo, Alde, Dias and Jorge (1997). Based on a valency analysis the database divides the content of articles and headlines for each subject into four different categories: positive, negative, ambivalent and neutral[40], in which positive would mean a pro-government

[36] For instance, following Lula's conviction in second instance accused of corruption, the *Ibovespa* increased 3.75%.
[37] The closest term in English would be "pay the piper", meaning to bear the burden of one's actions.
[38] Later Dilma (2018) declared "Do you know what the duck is? Taxes. They do not want taxes because a crisis immediately establishes a distributional conflict. Who is going to assume the onus of the crisis? You do not get out of a crisis without onus. But they [capitalists] want the burden over the Brazilian people, nothing on them. [Capitalists] enjoy financing, logistics, education, everything, but [capitalists] do not have the responsibility when is time to contribute. This is the idea behind the yellow duck". In Brazil, "paying the duck" means paying for something you did not benefit from or did not do, embodied in a huge yellow inflatable duck which was brought to protests.
[39] Manchetometro is produced by Laboratório de Estudos de Mídia e Esfera Pública (LEMEP) at the Universidade do Estado do Rio de Janeiro (UERJ).
[40] For example, a headline that says, "The government drastically decreased unemployment" would be categorized as positive, while a negative would be, "The government is not credible and cannot stop unemployment". Ambivalent would be when the coverage has both features (positive and negative) and neutral is when the article is purely descriptive.

bias and negative the contrary. First, the sharp increase in news related to these subjects in 2015 is noticeable, even more than the year of the impeachment. Second, there is a clear predominance of negative content produced by the vehicles studied in relation to these subjects: the number of negative articles was nineteen times higher than favourable articles in 2015. Therefore, the increasing coverage and partiality against the economy and the federal government can be seen to have been an instrument to influence the middle class in new demonstrations against the government in 2015 and 2016.

Figure 6: Media Impartiality (2014-2016)



Source: Author's calculation based on Manchetometro (2018)

The formal contestation of Rousseff's second mandate began with the request from the PSDB to recount the votes of the elections for president. Later, the demands against the government escalated in different forms, including various demonstrations during 2015 and 2016. By December 2015, the Congress had approved the impeachment process, arguing the government had borrowed money from its own public bank which is illegal according to the Fiscal Responsibility Law. Datafolha (2016b) traced the profile of the demonstrators and concluded that 70% of those present were older than 36 years, 67% had a salary above 5 minimum wages, 75% were white and 76% had post-school education. Generally, the demands were against the PT, Rousseff, Lula and corruption, but also included appraisals of the military dictatorship and "the end of the Marxist doctrine in schools", evidencing the character of the demonstrations. Behind the "rise of the middle class" were the movements

created in 2013, the MBL and *Movimento Vem Pra Rua,* which organised the demonstrations via the internet[41].

Concerning the government's support, the working class did not cease to support PT in the face of the rising alliance demanding the impeachment. Nonetheless, there were signs of distress in the government's base which became evident after the policy shift in 2015, the "electoral larceny". The choice of Levy was a big surprise for the more progressive movements in the sense that it was a decision against the PT government plan presented during the elections for Rousseff's second mandate. The CUT expressed its discontent: "We supported the re-election of President Dilma Rousseff to advance even more in the second mandate. For this purpose, it is necessary to interrupt the return to the neoliberal agenda proposed by the current Minister Joaquim Levy" (Silva 2015, March 4th).

Alongside, a discordance was growing inside the party in which half of the PT's congressional representatives signed a manifesto against austerity policies during the national meeting of the party. Natalia Cindra, a member of the PT leadership from 2015 to 2017, confirmed via an interview that "None of the groups inside PT stopped supporting the government, but they became much more critical […] I think, popularly, we lost a lot of support from some social movements and the [whole] movement cooled off." Moreover, related to the outcomes of the drastic shift to austerity and its interconnection with the impeachment process, she argued: "You [activists] lose the will to defend a government that, to some extent, does not represent you anymore. I am not saying, and this is important to highlight, that there was no defence of Rousseff during the coup d'état. However, there was a latency in the defence, because the people were not enchanted anymore by the government and its project" (Cindra 2018, May 2nd). This meant a large difference between pro- and anti-government mass demonstrations, as the working class had very little holding power to support the decaying government. After all, the capitalist class and the middle class held much more economic and mobilisation power to fight the government than the working class to support it.

Indeed, the acts in favour of the President gathered overall 275.000 people compared to 3.6 million people against the government[42]. Anderson (2016) comments on the lack of mobilisation of the working class around the demonstrations in favour of impeachment: "If

[41] The demonstrations were called via Facebook. After we noticed in the last US elections with Trump and the discussions about Cambridge Analytica, this at least raises some suspicions about the demonstrations, manipulation and the internet.

[42] I recognise the problems around this type of data, and therefore the number itself does not describe much; rather the difference should be considered.

corruption lost [the government] the middle class sympathy it once enjoyed, austerity has alienated the much larger lower class base it gained […] the poor [were] conspicuous by their absence [in the demonstrations]". Moreover, he raises the hypothesis that the PT's policies were meant to increase formal employment but caused a decline in unionisation. This implies that "the poor remained passive beneficiaries of PT rule, which had never educated or organised them, let alone mobilised them as a collective force" (Anderson 2016).

These elements evidenced the legitimation deficit and the decreasing political viability of the dominant coalition. The manifestation of the political and economic crisis represented an opportunity for the rise of a new dominant coalition. The collapse was on August 31st 2016, when the Brazilian Senate impeached President Rousseff although she had won the elections. Truly, Rousseff and her second mandate were in bad shape from the beginning. First, the decreasing economic performance and the choice of austerity worsened the economic crisis and allowed it to leak into the political realm as a rationality crisis. Second, the decision to settle with the capitalist classes strongly damaged the working class and their support which was the grounds for the legitimation crisis. Therefore, the feedback mechanism between both economic and political crises are important dynamics behind the collapse of Rousseff and the impeachment.

6. The Collapse: What is Behind and What is to Come?

Until now, this study focused on explaining some of the conjunctural aspects related to class conflict over economic policy based on the PS approach[43]. Nonetheless, some structural elements are important features, especially because they explain some of the motives and decisions of actors and factions competing in the Brazilian society. In this sense, the problem of class struggle and structure are old subjects of interest in the academic literature. Kalecki (1943), in particular, highlighted the conflict behind economic policy and capitalist interests as an intrinsic feature of capitalist societies[44]. Therefore, this section summarises the conjunctural aspects of the collapse of Dima's PS and adds the structural motives behind the class struggle

[43] It is acknowledged by the author that many other important elements were left behind due to the size of this research. This includes the political aspects of the corruption investigations, the role of the judiciary, the disputes inside the legislative power and the details of the impeachment process. For a deeper engagement in the subject, these elements shall be treated in future research.
[44] See also Rugitsky (2015).

of the period studied. Finally, it proposes some economic policies that could be adopted to overcome the crisis.

Rousseff's first mandate was marked by an attempt to establish a PS encompassing the productive capitalist faction and the working class in which the first received rents through macro and industrial policy and the latter through social policy. The success of this national development project depended on how long the political and economic viability would last. However, it was not long until the first wave of class conflict arose between the PS and powerful excluded factions. Indeed, the tensions increased with the financial capitalist faction and their disapproval of state interventionism, mainly around monetary policy, and the middle class discontent channelled by the media towards the political class. Nonetheless, the first wave did not represent a rupture, as Rousseff got re-elected. However, it evidenced the weakness of the settlement as the powerful opposition pressured against the developmental project, affecting economic policy decisions and damaging the government's legitimation via the demonstrations of 2013.

After the re-election, the second wave struck much stronger to make the PS economically and politically unviable, causing its collapse. In the economic dimension, the poor economic performance from the difficulties of the developmental plan in fostering growth and later the complete failure of fiscal austerity triggered the rationality crisis. Through the feedback mechanism, the movement towards austerity and economic crisis leaked into the political realm causing the productive capitalists to turn against the dominant coalition and the working class did not support the government to contain the collapse, establishing a legitimation crisis.

The study was limited to class struggle with respect to economic policies in a conjunctural dimension. Nonetheless, the Brazilian crisis also evidences structural features of social democracy, particularly related to some potential motives behind the capitalist alliance against Rousseff's governments. Kalecki[45] (1943) exposes the structural flaws emanating from an attempt to build a government linked to the working class. Principally, he points out that capitalists would rebel against the state to protect their power against the rise of social policy. In this sense, capitalists would be concerned about social democracy because of: 1) employment policies; 2) government spending towards public investment and consumption; 3) social changes. As shown in the sections above, capitalist factions used these three elements to

[45] In his seminal piece "Political Aspects of Full Employment" (1943), Kalecki studies full employment and the political and economic elements behind it. Undeniably, it is questionable to argue that the Brazilian economy experienced some sort of full employment; nonetheless it is still a valuable reflection about capitalist decisions and interests and the functioning of capitalist economies.

undermine the government and its economic policies during Rousseff's mandates. First, the financial capitalist faction opposed policies stimulating economic activity and employment such as the reduction of the Selic. Second, they used the argument of accelerating inflation against public expenditure, public investment and social policies. Third, social change threated social differentiation of the middle class from the lower classes, leading to the demonstrations.

As shown, the Brazilian capitalist class used arguments like public spending and government intervention in the economy to demoralise the PT's government - 'economic terrorism'. Kalecki (1943) clarifies that capitalist interests are not to 'restore the confidence fairy' and growth, but rather to attempt to re-establish their power over the economic and political dimensions so that capitalists can dictate the speed of development. He argues, "The social function of the doctrine of 'sound finance' is to make the level of employment dependent on the state of confidence" (Kalecki 1943, p.3-4). Capitalist confidence is the argument for domination: "If he [the capitalist] does not feel confident in the political situation, he will not be bribed into investment" and the economy will fall into an economic crisis (Kalecki 1943, p.4). The development project under Rousseff's first mandate showed that even if capitalists are benefitting from rents via many stimulus policies, they have the power to decide to invest or not. In this case, capitalists preferred to raise the profit rate instead of investing, causing investment rates to tumble.

Moreover, capitalists are interested in maintaining their power over workers in order to keep "discipline in the factories" and their "political stability". These are the elements behind the Brazilian capitalist alliance to regain political power and discipline workers in the face of the changes promoted by the PT. Therefore, they used the media to gather mass support from the middle class to legitimize their fight against the government. Indeed, corruption was the veil behind which capitalists' interests were hidden to legitimize the impeachment. Ultimately, the impeachment of President Rousseff was the capitalist effort to stop the possibility of structural change in favour of the lower classes. The capitalists' motives to break social democracy lie in the fact that "the social position of the boss would be undermined, and the self-assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension" (Kalecki 1943, p. 3).

Therefore, the PT failed for two reasons: 1) it did not fight against the capitalist structure to drag political and economic power from capitalists; 2) it did not foster workers' mobilisation and class consciousness. The development project proposed during the first mandate found itself limited by the class contestation and governance and economic policies had to comply

with capitalists' interests. As Saad-Filho and Loureiro (2017) argue, PT failed because it was too pragmatic. Therefore, when the political tensions with the powerful classes rose, the government's support was gone and little could be done about it. After all, the policies adopted by the PT did not put the power structure at stake. Social policies were limited to the inclusion of lower classes in new consumption patterns, not altering the distribution of power. Hence power, media and rights have always remained in the hands of capitalists. The PT never fought against the retrograde Brazilian structure.

Therefore, policy must deal precisely with the power structure that depresses the country against a national inclusive development project. Indeed, policies should fight the class and power structure that is historically rooted in Brazil. Therefore, a strong income and wealth redistribution is mandatory, at least to resolve the economic power disparity. This should be done via direct government income redistribution, tax progressivity and wealth taxation. Additionally, financial capital should be taxed and controlled to contain speculative flows that are against the macroeconomic objectives. Public investment should take a lead to improve the social and economic infrastructure. Industrial policy should be based on constructing and improving national industry, and focused on the capacity of the domestic demand. In political terms, political reform is obligatory to increase direct democracy aiming to eliminate the concentration of political power with elites. This also means regulating the media to eliminate the current oligopoly and eradicate cross-ownership to avoid information biased towards specific interests.

In sum, the impeachment was a collapse constructed by the conjectures of the economic and political crisis nourished by structural features of capitalism. Indeed, the political economy of the PT fostered conflict against powerful factions. But the motives behind the revolt are structural. Pessimism apart, there are policies that could reverse such a scenario, but this requires drastic structural changes in different spheres to increase people's power and voice. These are crucial measures that PT did not take, suffering from its own sin - the sin of not being progressive enough. Certainly, the Brazilian rupture catches the attention, but I am not trying to convince the reader it was a unique process in the history of humankind - after all, it is class struggle and capitalism, stupid!

7. Conclusion

This research tried to show some of the elements behind the rise and fall of social democracy under the mandates of Dilma Rousseff in Brazil (2011-2016). It argued that the development project of President Rousseff's first mandate tried to foster economic growth by fostering private investment through subsidies and tax levies. At the same time, it maintained inclusive social policies to reduce poverty and redistribute income. Therefore, the project was a coalition formed from part of the capitalist class and the working class. Nonetheless, a first wave of rising conflicts from the financial capitalist faction and the middle class exposed the weaknesses of the dominant coalition. Not yet in crisis, the second mandate of President Rousseff attempted to embrace the competing coalitions by adopting a neoliberal macroeconomic agenda. Nonetheless, it was ineffective once economic growth decreased, creating a rationality crisis that spread to different social spheres following the second wave of conflict.

Fuelling the collapse, the deficit in the legitimation of the dominant coalition had two important elements: first, the alliance between capitalist factions and the use of the media to influence the middle class against the PT and the president, using corruption as a veil; second, the negative impact of the neoliberal agenda on the working class, which did not cause a loss of support but seriously damaged the base of the PT and the government.

In sum, the collapse of the PS attempted by Rousseff's government has conjunctural and structural elements. The conjunctural consist of the contradictions emanating from inside and outside the government in terms of economic policy and the leakages to economic performance which helped factions to turn revolt against the dominant coalition, whereas the structural elements correlate to the intrinsic struggles of the capitalist society in which the capitalist class, and also the Brazilian middle class, will prioritise the maintenance of their power over social democracy. Therefore, unlike the past 18 years in Brazil, policies should aim for drastic structural changes, otherwise national socio-economic development will always depend on the will of the powerful.

References

Amable, B.; Palombarini, S. (2017): *L'illusion du bloc bourgeois: Alliances sociales et avenir du modèle français*. Paris, France :Raisons D'Agir

Amado, A. M.; Mollo, M, L, R. (2015): "The 'developmentalism' debate in Brazil: some economic and political issues". *Review of Keynesian Economics*. Vol. 3, n. 1, p. 77–89.

Anderson, P. (2016): "Crisis in Brazil". *London Review of Books*, Vol. 38, no. 8, p.15-22.

Barbosa Filho, F. H.; Pessoa, S. (2017): "Desaceleração Recente da Economia". In: *Sob A Luz do Sol: uma agenda para o Brasil*. CDPP.

BCB (2018): "Banco Central do Brasil Series Temporais". *Banco Central do Brasil*. Available at: http://www.bcb.gov.br/?serietemp.

Bernardes, J. E. (2017): "Grande Mídia Convocou Classe Média em 2013, Diz Integrante do MPL". *Brasil de Fato*. Available at: https://www.brasildefato.com.br/2017/07/01/grande-midia-convocou-classe-media-em-2013-diz-integrante-do-mpl/

Bresser-Pereira, L. C. (2015): "Brazil's 35 Years-old Quasi-stagnation and the Interest rate-Exchange Rate Trap". *Working Paper FGV Sao Paulo*, No. 399. Available at: http://www.bresserpereira.org.br/texto-discuss%C3%A3o/15.07-Brasil-quasi-stagnation-TD-399.pdf

Bruno, M.; Diawara, H.; Araujo, E.; Reis, A. C.; Rubens, M. (2011): "Finance-Led Growth Regime no Brasil: Estatuto Teórico, Evidências Empíricas e Consequências Macroeconômica". *Revista de Economia Política*, vol. 31, nº 5 (125), Especial Edition p. 730-750

Boito Jr. A. (2007): "Estado e Burguesia no Capitalismo Neoliberal". *Revista Sociologia e Politica*, 28, p.57-73.

Boito Jr, A.; Saad-Filho, A. (2016): "State, State Institutions, and Political Power in Brazil". *Latin American Perspectives*, 207, Vol. 43 n. 2, p.190–206

Cagnin, R. F.; Prates, D. M.; Freitas, M. C. P.; Novais; L. F. (2013): "A Gestao Macroeconomica do Governo Dilma (2011 e 2012)". *Novos Estudos*, 97, p. 169-185.

Campello, T.; Neri, M, C. (2013): *Programa Bolsa Família: Uma Década de Inclusão e Cidadania*. Brasilia: IPEA.

Carvalho, F. J. C. (2017): "Brazil Still in Troubled Waters". *Public Policy Brief Levy Economics Institute of Bard Collage*, n.143.

Cantanhêde, E. (2015, January 25th): "Levy e Uma Ilha em um Mar de Mediocridade". *O Estado de São Paulo*. Available at: http://economia.estadao.com.br/noticias/geral,levy-e-uma-ilha-em-um-mar-de-mediocridade,1624337

Cindra, N. (2018, May 2nd): Personal Phone Interview.

CNI (2012a): "CNI Diz Que Ampliação do Plano Brasil Maior Melhora o Ambiente de Negócios e Ajuda a Reindustrialização". *Agência de Noticias CNI*. Available at: http://www.portaldaindustria.com.br/agenciacni/noticias/2012/04/cni-diz-que-ampliacao-do-plano-brasil-maior-melhora-o-ambiente-de-negocios-e-ajuda-a-reindustrializacao/

CNI (2012b): "Plano Brasil Maior: Avaliacao Após 1 Ano". *Consulta Empresarial*, 4, n.1.

CNI-IBOPE (2017): "Avaliacao do Governo". *CNI-IBOPE*. Available at: http://www.portaldaindustria.com.br/estatisticas/pesquisa-cniI-ibope-avaliacao-do-governo/

CUT (2013): "CUT Critica Tentativa de Impor Aumento de Juros e Lamenta Distorção da Fala de Dilma". *Rede Brasil Atual*. Available at: http://www.redebrasilatual.com.br/economia/2013/03/em-nota-cut-se-posiciona-contra-aumento-dos-juros

Datafolha (2016a): “Avaliação da Presidente Dilma Roussef”. *Datafolha Instituto de Pesquisa*. Available at: http://media.folha.uol.com.br/datafolha/2016/04/11/avaliacao-presidente-dilma.pdf.

Datafolha (2016b): “Manifestação Avenida Paulista 13/03/2016””. *Datafolha Instituto de Pesquisa*. Available at: http://media.folha.uol.com.br/datafolha/2016/03/14/manifestacao_13_03_2016.pdf.

Di John, J. (Forthcoming): “Manufacturing Brazil: An inquiry into the relationship between political order and industrialisation, 1900 to the Present”. France: *Agence Francaise de Developpement*.

Di John, J.; Putzel, J. (2009): “Political Settlements: Issues Paper”. *GSDRC Emerging Issues Research Service*.

Epstein, G. (2005): *Financialisation and the World Economy*. Cheltenham, UK: Edward Elgar.

FEBRABAN (2015): “Febraban Elogia Corte de Despesas Anunciado Pelo Governo”. *Portal G1*. Available at: http://g1.globo.com/economia/noticia/2015/09/febraban-diz-que-governo-emite-sinalizacao-para-restabelecimento-da-confianca.html

FIESP (2011a): “O Processo de Desindustrializacao”. *Departamento de Pesquisas e Estudos Economicos*. Available at: http://www.fiesp.com.br/indices-pesquisas-e-publicacoes/o-processo-de-desindustrializacao/

FIESP (2011b): “Os Entraves ao Desenvolvimento da Industria Brasileira”. *Departamento de Competitividade e Tecnologia* Available at: http://www.fiesp.com.br/indices-pesquisas-e-publicacoes/entraves-ao-desenvolvimento-da-industria-brasileira/

FIESP (2015): “FIESP e CIESP Definem Apoio a Processo de Impeachment”. *Agencia Indusnet FIES*P. Available at: http://www.fiesp.com.br/noticias/fiesp-e-ciesp-definem-apoio-a-processo-de-impeachment/

Figueiredo, M.; Alde, A.; Dias, H.; Jorge, V. L. (1994): “Estratégias de Persuasão Eleitoral: Uma Proposta Metodológica Para o Estudo da Propaganda Eleitoral”. *Opinião Pública*, Vol. IV, n 3, p.182-203

Gray, H. (2015): “Access Orders and the ‘New’ New Institutional Economics of Development”. *Development and Change*, 47(1), p.51–75.

Habermas, J. (1973): *Legitimation Crisis.* Cambridge, UK: Polity Press.

Herman, E. S.; Chomsky, N. (1988): *Manufacturing Consent: The Political Economy of the Mass Media.* New York, NY: Pantheon Books.

IBGE (2013): “Pesquisa Mensal de Emprego”. *Instituto Brasileiro de Geografia Estatistica*. Available at: https://ww2.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/

IBGE (2014): “Pesquisa Mensal de Emprego”. *Instituto Brasileiro de Geografia Estatistica*. Available at: https://ww2.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/

IBGE (2015): “Pesquisa Mensal de Emprego”. *Instituto Brasileiro de Geografia Estatistica*. Available at: https://ww2.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/

Kalecki, M. (1943): “Political Aspects of Full Employment”. *Political Quartely.* Available at: https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-923X.1943.tb01016.

Kaltenbrunner, A. and Painceira, J.P. (2016): “International and Domestic Financialisation in Middle Income Countries: The Brazilian experience”. *FESSUD Working Papers Series*, n. 146

Khan, M. H. (2010): “Political Settlements and the Governance of Growth-Enhancing Institutions”. *Research Paper Series on Governance for Growth*. School of Oriental and African Studies. Available at https://eprints.soas.ac.uk/9968/1/Political_Settlements_internet.pdf

Lamarche, T; Nieddu, M.; Grouiez, P.; Chanteau, J.-P.; Labrousse, A.; Michel, S.; Vercueil, J. (2015): “A regulationist method of meso-analysis”. In *Regulationist Residential Seminar*, Paris Régulation Theory Conference, June 12th, 2015.

Lavinas, L. (2017): *“The Takeover of Social Policy by Financialisation: The Brazilian Paradox”.* New York, NY: Palgrave Macmillan.

LEMEP (2018). “Manchetometro”. *Laboratório de Estudos de Mídia e Esfera Pública*. Available at: http://www.manchetometro.com.br/.

Leo, S. (2013, March 27th): “Nao Acredito em Politica de Inflacao que Reduz Crescimento, Diz Dilma”. *Valor Economico*. Available at: http://www.valor.com.br/brasil/3062904/nao-acredito-em-politica-de-inflacao-que-reduz-crescimento-diz-dilma.

Levy, J. (2015): “Discurso de Posse do Novo Ministro da Fazenda, Joaquim Levy”. *Ministerio da Fazenda*. Available at: http://www.fazenda.gov.br/noticias/2015/janeiro/discurso-de-posse-do-novo-ministro-da-fazenda-joaquim-levy/Discurso-de-posse-do-novo-Ministro-da-Fazenda.pdf/view.

Loureiro, P. M.; Saad-Filho, A. (2017): “The Limits of Pragmatism: The Rise and Fall of the Brazilian Workers’ Party (2002-2016)”. *Latin American Perspectives (Forthcoming)*. Available at: https://eprints.soas.ac.uk/24329.

Mantega, G. (2012, December 19th): “O Primeiro Ano da Nova Matriz Economica”. *Valor Economico.* Available at: http://www.valor.com.br/brasil/2945092/o-primeiro-ano-da-nova-matriz-economica

Media Ownership Monitor Brazil (2018): “Follow the Money: The Diverse Economic Interests of Media Owners”. Available at: https://brazil.mom-rsf.org/en/findings/business-interests/

Mello, G.; Rossi, P. (2017): “Do Industrialismo a Austeridade: A Politica Macro dos Governos Dilma”. *UNICAMP Textos Para Discussao*, 309.

Ministério do Planejamento (2015): “Programação Orçamentária”. *Ministerio do Planejamento Orçamento e Gestão*. Available at: http://www.planejamento.gov.br/apresentacoes/ministro/2015/maio/150527_cmo_programacao_orcamentaria_2015_-impressao.pdf/view

Morais, L.; Saad Filho, A. (2011): “Brazil Beyond Lula: Forging Ahead or Pausing for Breath?”. *Latin American Perspectives*, Vol. 38, (2), p. 31-44.

Morgan, M. (2017): “Extreme and Persistent Inequality: New Evidence for Brazil Combining National Accounts, Surveys and Fiscal Data, 2001-2015”. *WID.world WORKING PAPER SERIES*, N° 2017/12.

Nassif, A., Bresser-Pereira, L. C., Feijo, C. (2017): “The case for reindustrialisation in developing countries: towards the connection between the macroeconomic regime and the industrial policy in Brazil”. *Cambridge Journal of Economics*, n. 42, p. 355–381

North, D., J. Wallis and B. Weingast (2009): *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. New York: Cambridge University Press.

North, D., J. Wallis, S. Webb and B. Weingast (2013): *In the Shadow of Violence: Politics, Economics and the Problems of Development*. Cambridge: Cambridge University Press.

Oreiro, J. L.; Marconi, N. (2016): “O Novo-Desenvolvimentismo e Seus Críticos”. *Cadernos do Desenvolvimento*. Vol. 11, n. 19, p.167-179.

Palma, J. G. (2009): “Flying Geese and Waddling Ducks: the different capabilities of East Asia and Latin America to ‘Demand-Adapt’ and ‘Supply-Upgrade’ their export productive capacity”. In *Industrial Policy and Development: The Political Economy of Capabilities Accumulation*: Oxford University Press. Available from http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199235261.001.0001/acprof-9780199235261-chapter-8.

Palma, J. G. (2011): “Homogeneous Middles vs. Heterogeneous Tails, and The End of the ‘Inverted-U’: The Share of The Rich is What It’s All About”. *Cambridge Working Papers in Economics (CWPE) 1111*. Available at http://www.econ.cam.ac.uk/dae/repec/cam/pdf/cwpe1111.pdf

Palma, J. G. (2013): “Was Brazil’s Recent Growth Acceleration the World’s Most Overrated Boom?”. *Cambridge Working Papers in Economics*, University of Cambridge, n. 1248. Available at: http://www.econ.cam.ac.uk/dae/repec/cam/pdf/cwpe1248.pdf

Paulani, L. M. (2015): “A Falacia da ‘Freada de Arrumacao’”. In Belluzzo, L. G. M; Bastos, P. P. Z. (Ed.), *Austeridade Para Quem?: Banlanco e Perspectivas do Governo Dilma Rousseff*, (p.93-102). Sao Paulo: Carta Maior.

Poulantzas, N. (2000): *State, Power and Socialism*. New York, NY: Verso.

Pochmann, M. (2015): *O Mito da Grande Classe Média: Capitalismo e Estrutura Social*. São Paulo: Boitempo

Quadros, W. (2017): “PNAD 2015: O retrocesso se explicita”. *UNICAMP Texto para Discussao*, 286.

Quadros, W.; Antunes, D.; Gimenez, D. (2012): “Brazil and the New Middle Class of the 2000's. *MPRA Paper*, No. 48927.

Rousseff, D. (2011a): “Discurso da Presidenta da República, Dilma Rousseff, durante Compromisso Constitucional perante o Congresso Nacional”. *Portal do Planalto*. Available at: http://www2.planalto.gov.br/acompanhe-o-planalto/discursos/discursos-da-presidenta/discurso-da-presidenta-da-republica-dilma-rousseff-durante-compromisso-constitucional-perante-o-congresso-nacional.

Rousseff, D. (2011b): “Discurso da Presidenta da República, Dilma Rousseff, Durante Cerimônia de Lançamento do Plano Brasil Maior”. *Portal do Planalto.* Available at: http://www2.planalto.gov.br/acompanhe-o-planalto/discursos/discursos-da-presidenta/discurso-da-presidenta-da-republica-dilma-rousseff-durante-cerimonia-de-lancamento-do-plano-brasil-maior

Rousseff, D. (2012): “Pronunciamento à nação da Presidenta da República, Dilma Rousseff, por Ocasião do Dia do Trabalho”. *Portal do Planalto*. Available at: http://www2.planalto.gov.br/acompanhe-o-planalto/discursos/discursos-da-presidenta/pronunciamento-a-nacao-da-presidenta-da-republica-dilma-rousseff-por-ocasiao-do-dia-do-trabalho

Rousseff, D. (2015): “Discurso da Presidenta da República, Dilma Rousseff, durante Compromisso Constitucional perante o Congresso Nacional”. *Portal do Planalto*. Available at: http://www2.planalto.gov.br/acompanhe-o-planalto/discursos/discursos-da-presidenta/discurso-da-presidenta-da-republica-dilma-rousseff-durante-compromisso-constitucional-perante-o-congresso-nacional-1.

Rousseff, D. (2018, May 5th): *Break[ing] Down The Constitution: Brazil Forum UK*. London, UK.

Rugitsky, F. (2015): “Do Ensaio Desenvolvimentista a Austeridade: uma leitura Kaleckiana”. *Carta Maior*. Available at: http://www.cartamaior.com.br/?/Especial/A-utopia-neoliberal-o-capitalismo-contra-a-democracia/Do-Ensaio-Desenvolvimentista-a-austeridade-uma-leitura-Kaleckiana/202/33448

Saad-Filho, A. (2014): “Brazil: Development Strategies and Social Change From Import-Substitution to the “Events of June”. *Studies in Political Economy*, 04, Autumn 2014, p. 3-29.

Saad-Filho, A.; Boito Jr. A. (2016): “Brazil: The Failure of the PT and the Rise of The ‘New Right’”. *Socialist Register*, p. 213-230

Salama, P. (2012) : *Les Economies Emergentes Latino-Americaines: Entre Cigales et Fourmis.* Paris : Armand Colin

Salama, P (2015): “Une Crise Structurelle au Brésil”. *Revista de Politicas Públicas*, n. Special, p. 43-50.

Salama, P. (2016): “A Regressão Industrial e o Pequeno Crescimento Possibilitam Aumentar os Salários, Quando a Produtividade se Encontra Estagnada? Comentários aos artigos de Pessoa, Lisboa, Oreiro e Marconi”. *Cadernos do Desenvolvimento*. Vol. 11, n. 19, p.191-202.

Serrano, F. and Melin, L. E. (2015): “Political Aspects of Unemployment: Brazil’s Neoliberal U-Turn”. *Excedente*. Available at: http://www.excedente.org/artigos/political-aspects-of-unemployment-brazils-neoliberal-u-turn/

Serrano, F. and Summa, R. (2015): “Aggregate Demand and the Slowdown of Brazilian Economic Growth from 2011-2014”. *Nova Economia,* Vol.25 (special), p.803-833.

Silva, R (Silva 2015, March 4th): “Mudar a Atual Politica Economica Brasileira Para Mudar Mais o Brasil”. *Central Única dos Trabalhadores*. Available at: https://www.cut.org.br/artigos/mudar-a-atual-politica-economica-brasileira-para-mudar-mais-o-brasil-be0e.

Singer, A. (2013): “Brasil, Junho de 2013: Classes e Ideologias Cruzadas”. *Novos Estudos: Dossie Mobilizacoes, Protestos e Revolucoes,* 97, p.23-40.

Singer, A. (2015): “Cutucando Oncas com Varas Curtas: O Ensaio Desenvolvimentista no Primeiro Mandato de Dilma Rousseff (2011-2014”. *Novos Estudos*, 102, p.43-71.

Skaff, P. (2015): “Manifesto”. *Não Vou Pagar o Pato*. Available at: http://www.naovoupagaropato.com.br/manifesto/.

Souza, J. (2017): *A Elite Do Atraso: Da Escravidão à Lava Jato*. Rio de Janeiro: Leya.

Soto and Otoni (2010, February 8th): “Global Currency War Could Get Nastier, Warns Brazil's Mantega”. *Reuters*. Available at: https://www.reuters.com/article/us-g20-brazil-euro/global-currency-war-could-get-nastier-warns-brazils-mantega-idUSBRE9170N220130208

The Economist (2009, November 12th): “Brazil Takes off”. *The Economist*. Available at: https://www.economist.com/node/14845197

The Economist (2012, December 8th): “A Breakdown of Trust: Brazil’s Economy”. *The Economist*. Available at: https://www.economist.com/leaders/2012/12/08/a-breakdown-of-trust

The Economist (2013, September 27th): “Has Brazil Blown It”. *The Economist*. Available at: https://www.economist.com/leaders/2013/09/27/has-brazil-blown-it

The Economist (2016, April 23rd): “The Great Betrayal””. *The Economist*. Available at: https://www.economist.com/leaders/2016/04/23/the-great-betrayal

Ulhôa, R. (2014, November 11th): “Levy na Fazenda e Como Um Quadro da CIA na KGB, diz Aecio”. *Valor Economico*. Available at: http://www.valor.com.br/politica/3793248/levy-na-fazenda-e-como-um-quadro-da-cia-na-kgb-diz-aecio

Ulhôa, R. (2015, October 2nd): “CNI: ‘Loucuras’ desde a era Collor fizeram indústria perder espaço”. *Valor Economico*. Available at: http://www.valor.com.br/brasil/4253394/cni-loucuras-desde-era-collor-fizeram-industria-perder-espaco.

Valente, G.; Oliveira, E. (2013, March 25th): “Delfim Ataca ‘Gênios’ dos Juros Altos”. *O Globo*. Available at: https://oglobo.globo.com/economia/delfim-ataca-genios-dos-juros-altos-7935616

World Bank (2018): *World Development Indicators*. Available at: https://data.worldbank.org/products/wdi

Word Inequality Database (2018): *World Inequality Database*. Available at: http://wid.world/