Brazil

Brazil

Neoliberalism Versus Democracy

Alfredo Saad-Filho and Lecio Morais

PLUTO PRESS

First published 2018 by Pluto Press
345 Archway Road, London N6 5AA

www.plutobooks.com

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN 978 0 7453 3675 6 Hardback
ISBN 978 0 7453 3670 1 Paperback
ISBN 978 1 7837 1785 9 PDF eBook
ISBN 978 1 7837 1787 3 Kindle eBook
ISBN 978 1 7837 1786 6 EPUB eBook

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental standards of the country of origin.

Typeset by Stanford DTP Services, Northampton, England

Simultaneously printed in the United Kingdom and United States of America

Contents

Introduction

Overview

Brazil is the world's fifth biggest country in area and in population; its economy is the largest in Latin America, and one of the ten largest in the world. Between the late 1940s and 1980, GDP growth rates approached 7 per cent per annum (4 per cent per capita), which was outstanding even during the postwar 'golden age' of global capitalism. The country was transformed. A poor economy that, until the early twentieth century, specialised in the production of coffee for export, became a large, industrialised and fast-growing powerhouse, exporting durable consumer goods to China, construction services to the Middle East and, eventually, aeroplanes to the USA.

Rapid economic growth is not unproblematic, but it has two potentially redeeming features: domestically, it opens up the possibility of satisfying everyone's basic needs; externally, it can support a rebalancing of the global political economy. Brazil squandered these transformative possibilities. Regardless of the changes in the economy and the extraordinary growth of productive capacity through import-substituting industrialisation (ISI), Brazil was, and continues to be, one of the world's most unequal countries, with wholly avoidable poverty stunting the lives of tens of millions of people; it has also often failed to contribute significantly to global diplomacy. In the meantime, a minority has devoured the gains from growth, gorging on consumption levels that are both morally unconscionable and impossible to generalise: they are, by definition, incompatible with a common citizenship.

In laying claim to the wealth of the nation, the elites disregarded the Other. In order to achieve their material ambitions, they plundered the natural environment. To secure their position, they monopolised political power.[1] Brazilian growth was *perverse* because it increased economic and social inequalities. Specifically, it strengthened elite command of the country's resources and political institutions, and their control of the level, composition and distribution of investment, employment, trade, finance and the national output.

The Brazilian state was dominated by an oligarchic republic until 1930, a right-wing populist dictatorship between 1930 and 1945, and a military dictatorship between 1964 and 1985. In the interval, a precarious democracy was caught between landed interests, various strands of populism and, threatening their uneasy balance, emerging forces on the political left. A more successful democracy was built in the 1980s, but the judicial-parliamentary coup of 2016 shows that political freedom remains fragile, and that the pursuit of equality is not universally welcomed. Despite the veneer of an integrated and cordial society, where rich, poor, women, men, black and white enjoy samba, cold beers and football together, Brazilian society has been forged by 500 years of racism, exclusion, inequality, violence and authoritarianism. Their imprint has persisted, regardless of changes in the political regime.

Growth faltered in the 1980s, and the economy was overcome by a prolonged stagnation lasting into the 2000s. In the meantime, inflation accelerated from around 20 per cent per year, in 1972, to an annualised peak above 5,000 per cent, in mid-1994. That scourge was eliminated by the Real plan, named after the currency introduced in its wake, the *real*.[2] The stabilisation of the currency was not an unproblematic achievement, since the Real plan was used instrumentally to consolidate Brazil's transition to neoliberalism. However, neoliberalism did not bring growth, sustained improvements in living standards or a less divided society. On the contrary, GDP growth rates and job creation declined even further, and the pattern of employment deteriorated even in comparison with the so-called 'lost decade' of the 1980s.

Luís Inácio Lula da Silva, founder of the PT, was elected President in 2002, partly as a reaction against the inequities and inefficiencies of neoliberalism. Yet, his victory meant little until the favourable winds of the global commodity boom gave the government enough freedom to expand citizenship, raise wages and implement successful but invariably marginal distributional policies, without antagonising too many interests. At the end of his first administration, elite reaction against the creeping democratisation of the economy and society pushed Lula into a political corner from which escape seemed impossible. But escape he did, and with flair. Under growing pressure from the right, Lula shifted left, *ma non troppo*. He built a social and political coalition supporting mildly heterodox economic policies and a stronger push for the distribution of income. In the unprecedentedly favourable global context of the mid-2000s, these policies triggered a mini-boom; Lula's achievements were crowned with international glory, expressed by the rise of Brazil among the BRICS and the award of the 2013 Confederations Football Cup, the 2014 FIFA World Cup and the 2016 Olympic and Paralympic Games. The good times did not last.

The global economic environment turned hostile in 2008, and repeated policy mistakes and unrelenting elite hostility bedevilled the administration led by Lula's successor, Dilma Rousseff. Eventually, her government collapsed amidst the most severe economic crisis in Brazil's recorded history. By 2016, the Brazilian economy was ruined. Successive contractions of national output reduced per capita income back to its level in the early 2000s, eliminating the gains under the PT administrations. The open unemployment rate shot up from 4 per cent to 14 per cent between 2014 and 2016, with the loss of millions of jobs. The fiscal deficit and the domestic public debt mounted, and large firms in the oil, shipbuilding, construction, nuclear, food-processing and other industries were seriously affected.

On the political side, the Constitution was ripped to shreds. President Rousseff was overpowered by a coalition of privileged social groups whose leaders were implicated in a seemingly endless sequence of corruption scandals. The judiciary went rogue, disabling both the economy and the political system in the guise of 'fighting corruption'. Congress was demoralised and the Executive was disorganised. The elite's palpable hatred of the PT, the left and the poor eventually hardened into indifference to the social consequences of the coup.

At the time of writing, policy-making has become erratic, except for the dogged attempt by the administration led by Michel Temer to impose an excluding form of neoliberalism. The main point of the coup is to attack workers' rights, protections, pensions; all the rest – corruption included – is accessory. Surprising as it may seem, this excluding variety of neoliberalism is not simply elite retribution against the social gains in the previous period. Instead, it builds upon policies maintained, reinforced or imposed by the Rousseff administration, especially but not exclusively in its desperate final months, when the PT overturned its earlier achievements and abandoned even recent commitments as part of its struggle to survive. Yet even in the good times, the PT had never really broken with the neoliberal system of accumulation inherited from previous administrations; the party never tried to build an alternative economic system or social structure, and had deliberately alienated the social forces that might support a transformative project. It is ironic but not surprising that the crisis of the PT would be due, in part, to the inconsistencies in its own power project. These are reviewed in detail in what follows.

This book analyses the trajectory of the Brazilian economy, society and political system in recent decades. They are examined from the point of view of the limitations in (and contradictions between) the *political transition from military dictatorship to democracy*, and the *economic transition from ISI to neoliberalism*.

The transition to democracy, between 1974 and 1988, was predicated on a socially *inclusive* logic that fostered the expansion of citizenship and aimed to build a Scandinavian-style welfare state in a peripheral economy. In contrast, the transition to neoliberalism, between 1988 and 1999, was based on an *excluding* logic fostering financialisation, the deterioration of the living and working conditions of the majority and the concentration of income.

This book reviews these transitions in order to shed an original light upon the enduring features of Brazil's political economy, its recent metamorphoses and emerging fragilities. These features and fragilities include shifting but entrenched social and economic inequalities, seemingly irresolvable political fractures, balance of payments vulnerability, persistent weaknesses in the manufacturing sector and severe fiscal and financial constraints. The book also shows that the tensions due to the incompatibility between democracy and neoliberalism have limited the scope for distribution and social integration. They have produced political crises and impasses, culminating in the obliteration of the federal administrations led by the PT.

Method and Analytical Framework

This book is grounded on Marxist political economy. It examines the relationship between the political transition from dictatorship to democracy and the economic transition from ISI to neoliberalism through the prism of the *systems of accumulation* (SoA) in Brazil. The use of a grand theoretical framework is necessary for reasons of internal consistence; it also helps to avoid incoherent policy analysis and excessive focus on description at the expense of insight.[3] Only grand theories can illuminate long-term patterns, structures, systemic contradictions and historical shifts that may be difficult to discern, hard to understand or obscured by countless events of fleeting relevance. Yet, it is those patterns and structures that frame the trajectory of the concrete over time; that is, the making of history.

The SoA is the instantiation, configuration, phase, form or mode of existence (these terms are used interchangeably) of capitalism in a given conjuncture. It is determined by the class relations encapsulated in the mode of extraction, accumulation and distribution of (surplus) value and the institutional structures and processes through which those relations reproduce themselves (including the political forms of representation of interests and the patterns of social metabolism, see below).[4] Since the SoAs express the form of the capital relation relatively concretely, at a specific time and place, they are intrinsically variegated.

Examination of the SoA should include, first, the forms of the state, property, law, labour, exploitation, markets, technology, credit, money, distribution and competition, and the relationships between capital accumulation, social structure, the natural environment and the rest of the world. Second, it should consider the forms of political representation and the hegemonic ideology legitimising the SoA and stabilising incompatible interests. These historically constituted structures and processes can only be examined concretely through the political regimes, policy choices and institutional histories in which they are embedded.

Accumulation within each SoA is limited by *constraints* expressing the contradictions of capital in specific contexts and setting limits to economic and social reproduction. These constraints are contingent and historically specific, rather than permanent or logically necessary. They must be identified empirically, and they are usually addressed by public policy. While the existence of constraints to accumulation is widely recognised in the literature, each constraint is usually examined in isolation, as if they were unrelated elements blocking an otherwise undifferentiated process of 'growth'. This is misguided. The constraints are embedded within the SoA, and they help to define it. Since the SoA and the constraints are inseparable in reality, they must be analysed together.

Identification of the constraints to accumulation can usefully start from the circuit of industrial capital as outlined in Karl Marx's *Capital* Volume 1, that is, $M–C<^{MP}_{LP} \ldots PC'–M'$, where M is money, C and C' are (different) commodities, MP is means of production (land, buildings, machines, material inputs, and so on), LP is labour power, …P… is production, and M' is greater than M. This suggests that typical constraints include (but are not limited to) labour, finance and resource allocation, the balance of payments and the institutional setting (the property structure, mode of competition, role of the state and so on).

The *accumulation strategy* includes the spectrum of economic, social and other policies securing the reproduction of the SoA, managing, dislocating or transforming the constraints, and shaping the restructuring of capital in a specific conjuncture.

Systems of Accumulation in Brazil

Brazil has experienced three SoAs since gaining its independence in 1822. First, primary export-led growth with an oligarchic state and different political regimes, especially a centralised, authoritarian and exclusionary Empire, and a decentralised but similarly authoritarian and excluding First Republic (*República Velha*, Old Republic), overthrown in 1930 (this period is not examined in what follows).[5] Second, ISI with a developmental state, between 1930 and 1980. This period included a plethora of political forms, especially populist and military dictatorships and populist democracies, and it was punctuated by political crises and *coups d'état*. Third, after a long transition, a neoliberal economic system with political democracy, since the late 1980s.

While shifts between *varieties* of SoAs are normally driven by domestic imperatives, transitions *across* SoAs are usually triggered by exogenous transformations in global capitalism: this is one of the manifestations of the peripheral (dependent) character of the Brazilian economy. Global shifts tighten up the constraints on the Brazilian SoA, with pressures usually being relayed by the balance of payments. They reduce the policy space available to the government and limit its capacity to address other constraints, compromising economic performance. As the crisis spreads across the political-economy divide, the traditional modalities of reproduction can become dysfunctional. A transition to a new SoA follows.

The key economic tasks of the Brazilian state include the reproduction of the dominant SoA, addressing the constraints, implementing consistent accumulation strategies and driving systemic transitions. In doing this, the state must negotiate the tensions between two key roles. The *conservative role of the state* derives from the imperatives to secure the relations of domination, reproduce the mode of exploitation and preserve the existing patterns of inequality of income, wealth and privilege, regardless of economic performance.[6] This role is compatible with distinct political forms, from dictatorship to formal democracy. Attempts to challenge the conservative role of the state have triggered political turbulence in Brazil,[7] for example, in the 1920s, 1944–5, 1953–5, 1961–4, 1977–84, 1985–8, and between 2013 and the time of writing. The *transformative role of the state* concerns the use of public policy to enforce the primitive accumulation of capital, drive the expansion of capital(ism) through diverse SoAs, and hothouse the emergence of a capitalist class across primary export-led growth, followed by manufacturing and, later, finance. In this sense, heavy state intervention does not imply any form of 'state capitalism'. Rather, it merely shows that public policy responds to the imperatives of accumulation.[8]

Tensions between its conservative and transformative roles help to explain why the Brazilian state has generally been strong 'vertically', acting decisively to subdue native populations, slaves, poor immigrants, peasants and wage-workers, while it has been weak 'horizontally', with only limited capacity to manage conflicts among domestic elite groups and between them and their external counterparts.[9] Those elites include large and medium-sized capitalists (especially manufacturing, financial and agricultural capitalists, exporters and traders), large landlords, regional and local political chiefs, the technocracy, top civil servants, military officers, the Catholic hierarchy (and, more recently, the leaders of the main evangelical sects), the mainstream media and their hangers-on.[10] Disputes between them tend to be addressed through bargains, corruption or political capture. Historically, *pragmatism* has been one of the principles of formulation and implementation of economic policy in Brazil.

The tensions induced by economic growth and restructuring have created fissures within the elite. One of the implications of these tensions has been the disorderly development of the institutions of the state and the emergence of a bureaucracy that has often been divided between the implementation of policies narrowly defined by sectional interests, including those of the bureaucracy itself, and the pragmatic pursuit of policies determined by minimum common denominators (see above).[11] Since the Brazilian state has rarely been cohesive, the concept of 'state autonomy' – grounded upon a solid institutional bloc – is analytically inappropriate.[12]

The Brazilian state is, then, strong but fragmented, and it has often been unable to address consistently the constraints to the dominant SoA, and either unwilling or unable to limit inequality and support a common citizenship. By the same token, the state has generally been unable to plan the expansion of capacity, provide infrastructure, develop new competitive advantages and secure the provision of long-term finance for industry. Because of that, and the nature of the external constraints, Brazilian growth has tended to be volatile rather than planned or stable, with constraints being addressed haphazardly by poorly coordinated policies, changing configurations of the state and shifting political systems. This has raised the costs and limited the efficacy of state action, in contrast with more successful examples of accumulation in, e.g., East Asia, North America or Scandinavia.

Despite these limitations, Brazilian growth has been supported by the plunder of the natural environment, heavy reliance on cheap labour, a relatively large internal market, globally integrated export agriculture and an internationalised manufacturing sector. Finally, and unsurprisingly, accumulation has tended to be more successful in periods of stronger hegemony, when governments were more likely to follow coherent policies; for example, under Presidents Juscelino Kubitschek (1956–61), Emílio Médici (1969–73), Ernesto Geisel (1974–9), and in the second administration of Luís Inácio Lula da Silva (2006–10).

Structure of the Book

This book includes this introduction, nine chapters and a conclusion. Chapter 1 reviews the main features and limitations of the system of accumulation driven by ISI between 1930 and 1980. Even though Brazil developed an advanced manufacturing sector through ISI, this sector remained excessively fragmented and inefficient, and it was limited by balance of payments, financial and fiscal constraints. They affected the provision of inputs, availability of infrastructure and external balance. The macroeconomic disruptions induced by the two oil shocks and the international debt crisis weighed heavily upon the SoA, and the fragilities of ISI surfaced through a permanent slowdown in Brazil's GDP growth rate and a gradual slide into hyperinflation. Social tensions escalated because of distributional conflicts and mounting demands for democracy. Even though the transition to democracy, in 1985, satisfied the political aspirations of the emerging mass movements, it did not directly resolve the growing distributional conflicts, address the tightening constraints on the economy or improve macroeconomic management. The economic paralysis that afflicted the dictatorship in its later years and that gripped the first democratic administrations was symptomatic of the exhaustion of ISI and the weakening of the structures of social domination associated with that SoA.

Chapter 2 reviews the transition from dictatorship to democracy, focusing on the mass movements that led to the demise of the military regime. These movements drew upon an inclusive logic promoting political freedom, economic equality and the construction of a democratic welfare state. However, the transition was limited by an elite pact that delivered a shallow democracy, expanding citizenship while, at the same time, securing the reproduction of economic privilege. In this sense, the 1988 Constitution created a stunted democracy and a constrained welfare state. These limitations worsened because of the weakness of the economy and the pressures emerging in the transition from ISI to neoliberalism. As it included severe contradictions, not least between democracy and neoliberalism, the Brazilian political transition created a *democracy fragile by design*. Finally, this chapter reviews the rise of the PT as a left party of a new type. The party was formed as a genuinely working-class organisation, committed to (a poorly specified) democratic socialism. However, the pressures of functioning in a democracy eroded the PT's radical edge while, simultaneously, boosting its ability to acquire political office.

Chapter 3 examines neoliberalism as a system of accumulation (that is, the contemporary stage of global capitalism), as the prelude to a review of the transition to neoliberalism in Brazil. The neoliberal reforms in the late 1980s and early 1990s were justified by the presumed exhaustion of ISI, the need to improve economic efficiency and the imperative to control inflation. These challenges provided ideological cover for the economic transition from ISI to neoliberalism. This chapter examines the macroeconomic changes in the Brazilian economy due to the neoliberal transition, focusing on the internationalisation and financialisation of the economy, the changes to the balance of payments, the vicious circles created by the Real inflation stabilisation plan and their implications for growth. It is shown that, after the transition, Brazil remained an unequal, dependent and poverty-generating economy but, in contrast with the previous period of ISI, the country became a *low-growth* economy, where economic performance was permanently limited by the threat of balance of payments and exchange rate crises. Swings in international capital flows triggered the crisis of the *real*, in 1999, but the ultimate cause of the crisis was the fragilities created by the neoliberal transition. These shortcomings were addressed, in part, by the 'neoliberal policy tripod' introduced in 1999 (including inflation targeting and Central Bank independence, free capital movements and floating exchange rates, and contractionary fiscal and monetary policies).[13] Since then, the tripod has ruled Brazilian macroeconomic policy.

Chapter 4 reviews the structural changes in the Brazilian economy during the 1990s, focusing on the implications of the new SoA for production, the industrial structure and the level and patterns of employment. Import liberalisation and greater international integration hollowed out Brazil's manufacturing base, fostered the reprimarisation of the economy,[14] and increased the country's dependence on foreign trade, investment and technology. Manufacturing employment declined and productive capacity fell in key sectors, especially the more technologically sophisticated branches of industry. While the economy lost dynamism and capacity to create 'good' jobs, the state became less able to address the problems of growth, restructuring and policy coordination. Meanwhile, the neoliberal reforms were gradually embedded into the Constitution, especially through fiscal rules justified by the imperatives of inflation stabilisation and 'good governance'. In doing so, neoliberalism acquired legitimacy and tightened its hold on the institutional fabric of the country, undermining the democratic aspirations embodied in the Constitution.

Chapter 5 outlines the successes and limitations of the first administration of Luís Inácio Lula da Silva. Lula's election, in 2002, was the outcome of two mutually reinforcing processes. On the one hand, there were the tensions between the inclusive logic of democracy and the exclusionary consequences of neoliberalism (including poverty, inequality and precarious employment). On the other hand, there was the endogenous development of the PT, that led it to position itself primarily as an 'honest' party committed to 'fairness' and 'development', at the expense of its earlier commitment to some form of socialism.[15] On this basis, the PT built an 'alliance of losers', including groups with only the experience of *losses* under neoliberalism in common. This alliance underpinned the PT's attempt to govern within the established rules, that is, accommodating neoliberalism and the policy tripod. Continuity was tempered by changes in the social composition of the state through the appointment of thousands of popular leaders to positions of power, and the distribution of income at the margin through faster economic growth and federal transfers. This virtuous circle was limited by the government's political fragility. Lula was repeatedly attacked by the neoliberal elite and the middle class, until the *mensalão* corruption scandal led to the collapse of the 'alliance of losers', in 2005. Lula responded with a new 'alliance of winners', bringing together the groups that had benefitted the most during his first administration. They supported his successful bid for re-election, in 2006.

Chapter 6 reviews the achievements of 'developmental neoliberalism' during the second Lula administration (2007–10) and the first administration led by Dilma Rousseff (2011–14). This hybrid variety of neoliberalism included neodevelopmental economic policies, in addition to the neoliberal policy framework expressed in the tripod.[16] Developmental neoliberalism had positive implications for economic growth, employment, distribution and social welfare, and it supported Brazil's impressive recovery after the global economic crisis. High commodity prices and abundant liquidity alleviated the balance of payments constraint, while the appreciation of the *real* reduced inflation. However, private investment failed to pick up, there were no significant transformations in the productive structure, public investment was insufficient to sustain broad-based growth, and no attempt was made to reduce the inequality of wealth. Moreover, the disintegration of ISI in the 1980s and the imposition of neoliberalism in the 1990s entrenched a tendency towards deindustrialisation, the elimination of skilled jobs and the creation of low-paid jobs, and the concentration of income. They eroded the tax base, expanded needs, imposed financial and other stresses on the public sector, and enforced tight budgetary limitations on Brazil's emerging welfare state. Limited counter-tendencies prevailed for a time, during the PT administrations, but they were eventually overwhelmed by economic decline and the neoliberal reaction.

Chapter 7 reviews the achievements and insufficiencies of the administration led by Dilma Rousseff. Her coalition had a commanding position in Congress and, for a short time, the PT was close to achieving political hegemony. Rousseff was committed to faster economic growth and income distribution through the incremental strengthening of neodevelopmentalism and the erosion of the neoliberal tripod. To do this, the government introduced a 'new economic matrix' aiming to support a private-investment-driven cycle of growth focusing on infrastructure and basic goods, boosting productivity and reconstituting strategic production chains. The administration also pushed for the reduction of interest rates in order to support production at the expense of financial interests. However, these initiatives failed. Private capital did not respond, and the government's fiscal and monetary policies contributed to a growth slowdown that worsened the fiscal imbalance and reduced the scope for distribution. Rousseff's difficulties were compounded by the fragmentation of the government's base in Congress. These troubles led to a policy drift, culminating in inconsistent fiscal, tax, public-investment, labour-market and transfer policies. As the economy slowed down, the government shifted towards neoliberal orthodoxy in a vain attempt to reach an accommodation with the bourgeoisie. However, contractionary policies stalled demand, employment and distribution, plunging the economy into a deep crisis and eroding the PT's support among the workers and the poor.

Chapter 8 surveys the economic, political and distributive shifts associated with the transitions to democracy and to neoliberalism, focusing on the changes in Brazil's class structure and their political forms of expression. The chapter examines two fractions of the bourgeoisie (the internal and the internationalised bourgeoisie), the middle class and the formal and informal proletariat. The changes in the class structure are described, and these insights inform an original interpretation of the protests against Rousseff, which started in 2013. These protests were significant for four reasons. First, they were the largest mass demonstrations in Brazil in a generation. Second, they signalled an irreversible break in the base of support for the PT and paralysed Rousseff's administration. Third, they were symptomatic of the emergence of a new type of political protest under neoliberalism, explained by the notion of 'lumpenisation of politics'. Fourth, the protests started from the left but were captured by the right, which signalled the recomposition of a mass base for the far right for the first time in half a century.

Chapter 9 analyses the collapse of Rousseff's administration as the outcome of a confluence of revolts led by an 'alliance of privilege'. This alliance included most of the elite, especially the mainstream media, finance, industrial capital, the middle class, the judiciary, the Federal Police and large sections of the government's base in Congress. A range of dissatisfactions was brought together by the deterioration of the economy since 2011. They were intensified by corruption scandals focusing on the PT, especially the *lava jato* (carwash) operation. In order to contextualise these events, this chapter reviews the PT's involvement in corruption, the role of the middle class in corruption scandals and the way in which corruption was used as a tool to destroy Rousseff and the PT. In this sense, the impeachment was more than the tortured end to a government, or a savage attack against the PT. Rousseff's impeachment expressed the contradictions between *neoliberalism as system of accumulation* and *democracy as its political form*. They include the rupture of the fragile equilibrium between citizenship and privilege embedded in the Constitution, the shrinkage of the space for hybrid economic policies and the collapse of the PT's political project. These contradictions have evolved into a (temporary) historical impasse in which no configuration of political forces can establish hegemony, secure political stability or restore economic growth.