Profitability and Distribution

The Origin of the Brazilian Economic and Political Crisis

by

Adalmir Antonio Marquetti, Cecilia Hoff, and Alessandro Miebach

The PT governments combined elements of developmentalism and neoliberalism in a contradictory construction, organizing a large political coalition of workers and capitalists that allowed expanding the real wage and reducing poverty and inequality while maintaining the gains of productive and financing capitals. The decline of profitability after the 2008 crisis broke the class coalition constructed during Lula's administration. The Dilma Rousseff government adopted a series of fiscal stimuli for private capital accumulation with meager economic growth. After her reelection, the government implemented an austerity program that resulted in negative growth rates. With the deepening economic crisis and without political support, Rousseff was removed from power.

Os governos do PT combinaram elementos de desenvolvimentismo e neoliberalismo em uma construção contraditória, organizando uma grande coalizão política de trabalhadores e capitalistas que permitiu expandir o salário real e reduzir a pobreza e a desigualdade, mantendo os ganhos dos capitais produtivos e financeiros. O declínio da lucratividade após a crise de 2008 quebrou a coalizão de classes construída durante o governo Lula. O governo Dilma Rousseff adotou uma série de estímulos fiscais para a acumulação de capital privado com escasso crescimento econômico. Após sua reeleição, o governo implementou um programa de austeridade que resultou em taxas de crescimento negativas. Com o aprofundamento da crise econômica e sem apoio político, Dilma foi afastada do poder.

Keywords: *Brazilian economy, Profit rate, Wage share, Developmentalism, Neoliberalism*

Neoliberalism is a phase of capitalism that originated in the crisis of Latin America's Golden Age. The declining profit rate of the mid-1960s drove a reaction by the capitalist class to restore profitability. A series of institutional reforms favored capital, particularly finance capital. As these changes solidified, the financial sector became hegemonic, consolidating the basic tenets of neoliberalism. The reforms converted the market into the fundamental mechanism of resource allocation to raise the profit rate. Neoliberalism succeeded in restoring

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profitability, but it had its contradictions. The financial sector's profitability required new areas of unrestrained valorization to convert one type of capital asset into another. This movement resulted in financial innovations and speculative bubbles in the developed and developing countries. Triggered by defaults on subprime mortgage loans, the financial crisis of 2008 rapidly reached the United States and the global financial system, with enormous consequences for the productive sector. The 2008 crisis was the structural crisis of neoliberal capitalism.

The structural crisis and changes in the institutional framework of the world economy are fundamental for analyzing Brazilian economic history. The international context produced the economic and ideological constraints and incentives for the Brazilian economic models: developmentalism during the Golden Age (1950–1980) and the neoliberal model (1990–2002). After 2003, during the Partido dos Trabalhadores (Workers' Party—PT) administration there was a combination of the two models with a redistributive policy. The 2008 crisis had negative effects on the Brazilian economy in terms of profit rate and economic growth.

The 1980s crisis opened the way for institutional reforms that gradually abandoned the import-substitution model. In 1990, the first year of Fernando Collor's presidency, while maintaining some institutions from developmentalism Brazil adopted the neoliberal model (Amann and Baer, 2002; Filgueiras, 2006). The renegotiation of the foreign debt made possible the accumulation of the foreign reserves for implementing the Real Plan in 1994. The plan succeeded in reducing inflation and electing Fernando Henrique Cardoso president. Neoliberalism increased the flow of international capital and the volatility of exchange rates. Following the path of financial crises in developing countries, Brazil devaluated the real in early 1999, just after Cardoso's reelection.

The authorities adopted an economic policy that combined inflation targeting, primary fiscal surplus, and a floating exchange rate based on a high interest rate and therefore high profits for finance capital. Lula's government maintained this macroeconomic policy. The inefficacy of neoliberal economic policies in promoting growth and employment played a role in the PT's victory in 2002. Another reason for Lula's election was the organization of a class coalition supported by different social sectors (Boito Jr. and Saad-Filho, 2016; Vianna, 2007). The candidate for vice president was José Alencar, the CEO of a large textile manufacturing company, representing the industrial bourgeoisie. In the "Letter to the Brazilian People" published in July 2002, Lula informed the financial sectors that the future government would maintain some features of neoliberal economic policy, in particular the high real interest rate (Silva, 2002). The PT's economic policy combined contradictory elements of developmentalist and neoliberal models. The favorable international environment, with China's soaring demand for commodities, the adoption of elements of the developmentalist state, and measures for social inclusion, resulted in rising economic growth and falling unemployment. Lula was reelected in 2006. Early in the next year the Growth Acceleration Program, consisting of a set of public and private investments under the coordination of Minister Dilma Rousseff, was launched. The Brazilian state returned to intervene in the market with a developmentalist policy.

By the late 2000s it seemed that Brazil had recovered the growth dynamic lost in the 1980s. Between 2002 and 2010, the economy expanded at 4 percent annually. In 2010 Dilma Rousseff was elected the first Brazilian woman president in the third consecutive victory of the PT. The growth rate of the gross domestic product (GDP) declined to 2.4 percent per year between 2010 and 2014. Despite mounting economic problems, Rousseff was reelected in 2014. In the campaign she had argued against the return of reduced economic growth and high unemployment represented by the opposition candidate. However, she implemented austerity measures that, associated with the cyclical downturn that had started in the second quarter of 2014 (CODACE, 2017) and the fall in commodities prices, drove a decline of the GDP of 3.8 percent in 2015 and 3.6 percent in 2016. The economic crisis coupled with the impact of corruption allegations played a central role in the impeachment of Rousseff in 2016.

This article investigates the economic policy of the PT governments and the political crisis from the perspective of the profit rate and its determinants. For various schools of economic thought, the profit rate is central to the functioning of capitalist firms. The decline of profitability after the 2008 crisis played a key role in breaking the political coalition organized under Lula's leadership, opening the possibilities for the soft coup of 2016. The article is organized as follows: The first section investigates profitability, distribution, and economic growth between 2003 and 2010, the period of Lula's presidency. The second reviews economic policy and profitability in the first Rousseff government, between 2010 and 2014. The third discusses the austerity measures implemented after Rousseff's reelection and her impeachment. The fourth concludes the paper. The appendix discusses the profit rate, its determinants, and its computation in the Brazilian economy.

PROFITABILITY AND FUNCTIONAL INCOME DISTRIBUTION IN BRAZIL, 2003–2010

The profit rate is a key determinant of the expected profitability of new investments, playing a central role in the business cycle (Weisskopf, 1979). The increase in the profit rate raises the expected profit rate, which drives up investment, which expands both production and employment. In a context of a declining profit rate and expected profitability, investment will decline and the economy will slow down. Investment and GDP growth rates were strongly associated with the profit rate in Brazil between 2000 and 2016 (Figure 1). Thus, the study of the profit rate and its components is fundamental for understanding Brazilian economic history. Profitability declined in Brazil between 2003 and 2015 (Figure 2).

Between 2003 and 2007, the profit rate increased despite the decline of the profit share because of an increase in capacity utilization and in the potential productivity of capital. Between 2007 and 2015, the profit rate declined because of an increase in the wage share and a drop in the potential productivity of capital. In 2010, the last year of Lula's government, the profit rate was higher than in the early 2000s.

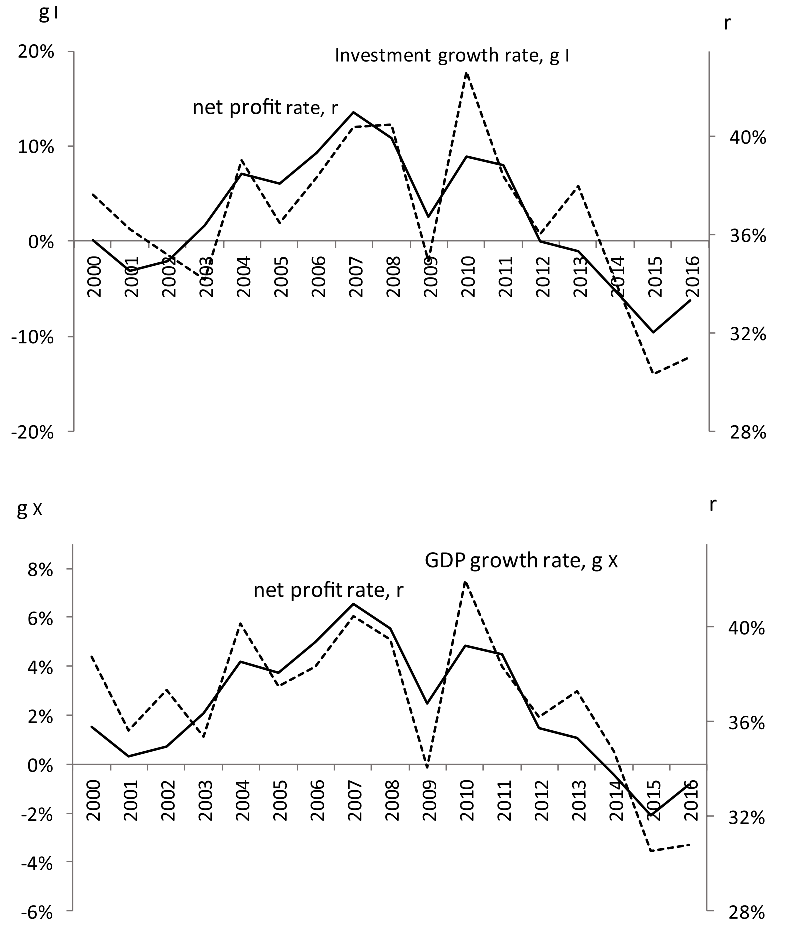

Figure 1. The relationship between the profit rate, the investment growth rate, and the GDP growth rate, 2000–2016 (IBGE, 2016; 2017; Marquetti et al., 2019).

The 2002 election was perceived by the financial bourgeoisie as a threat to neoliberalism in Brazil. There was a speculative attack with the devaluation of the real in 2002, after the polls had shown the probability of Lula's victory despite the "Letter to the Brazilian People" and the presence of José Alencar as candidate for vice president. Yet there was discontent in the popular sectors and in some industrial and agrarian capitalist sectors over the inefficacy of neoliberal economic policies for promoting growth and employment that played a prominent role in the election. In his first two years in power, despite the political dispute within the government, Lula adopted an economic policy with neoliberal hegemony.[1] There was continuity of the inflation-targeting policy and the commitment to maintain public finances under control with the adoption of primary surplus targets and the floating exchange rate. The key element of this policy was the high real interest rate on the public debt. Henrique Meirelles, former CEO of international financial institutions, was the president of the Central Bank. The benchmark SELIC rate was set at 26.5 percent in 2003.[2]

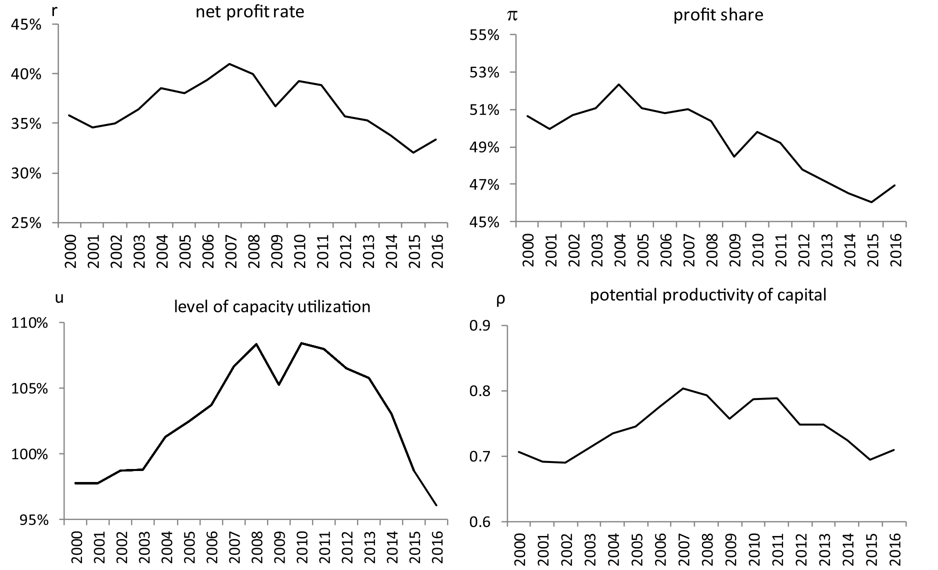

Figure 2. The profit rate and its components, 2000–2016 (IBGE, 2016; 2017; Marquetti et al., 2019).

The government wanted to establish a coalition with the industrial, agrarian, and financial fractions of the capitalist sector.

The rising demand for commodities opened up the possibility of implementing an economic policy that promoted economic growth and income redistribution. The Bolsa Família consolidated several conditional cash transfer programs directed toward the poor population. Under union pressure, the minimum wage rose in real terms in 2004 and 2005. The increase in tax revenues and increasing labor market formalization allowed combining the expansion of income transfer programs with primary surpluses.

The developmentalist economic policy became hegemonic after the 2005 political crisis known the *mensalão* (a monthly payment to Congress members in exchange for their support of the government) and the replacement of the finance minister, Antonio Palocci Filho, by Guido Mantega. Fiscal policy won preeminence for expanding growth, while monetary policy, under the control of the Central Bank, maintained a conservative approach. The new minimum-wage policy came into force in late 2006, linking the increase to past inflation and GDP growth, and enabled income transfers to workers and the expansion of household consumption. In January 2007 the Growth Acceleration Program, including a set of public and private sector investments with the aim of expanding economic growth, was launched under the coordination of Minister Dilma Rousseff.

In late 2006 the government built a new political alliance with the Partido Movimento Democrático Brasileiro (Brazilian Democratic Movement Party—PMDB). In order to pass their agenda in the Congress, Brazilian governments organized political coalitions composed of many parties and interests that constrained the agenda of the party in power in exchange for political stability. Despite the support of leftist political parties, the PT had a minority in the Congress. The PMDB had controlled Brazilian legislatures since the end of the military dictatorship, and its main goal was to influence the government budget. In the early years of Lula's government, the PMDB lost political power and employed the mensalão to restore its influence.

The mensalão produced significant media coverage and a spectacular judgment for which Joaquim Barbosa, a Supreme Court justice, achieved wide popularity. The scandal resulted in the imprisonment of some of the PT's leaders, including José Dirceu. This was the first time in Brazilian history that a corruption investigation had resulted in the arrest of a minister. The government had strong political support in an environment of economic growth with rising wages and profits. According to former President Cardoso, a proposal of impeachment would open a rift in the country (Cunto, 2011).

The international demand for commodities increased with the expansion of the world economy. Commodities prices rose 135 percent between 2002 and 2007 (IMF, 2016), and the exchange rate appreciated with them and the high interest rate. This allowed an increase in real wages and the control of the inflation rate but reduced the competitiveness of manufacturing. The cost was the deepening of deindustrialization (Nassif, Bresser-Pereira, and Feijó, 2017), increasing the influence of agribusiness on economic policy and in the defense of conservative interests in the Congress and in Brazilian society. The political alliance that sustained the PT governments included the agrarian ruling elite. Roberto Rodrigues, former chair of the Brazilian Agribusiness Association, was minister of agriculture between 2003 and 2006. The alliance was important to the government despite representing the economic interests of large rural producers and supporting right-wing conservative policies; the rural caucus was one of the largest groups in the Congress. Sauer (2019) argues that the limitations of the PT's agrarian policies originated from the contradictory necessity to respond to the historical demands for land reform of the popular sectors and preserve the main interests of the agrarian elite and the agribusiness sectors. This dual compromise resulted in lasting mistrust of the PT governments by the agrarian elite.

The economic policy and the terms-of-trade increase allowed combining an increase in the profit rate with the increase in the wage share (Table 1). This combination was due to the expansion of capacity utilization and the potential productivity of capital. The increase in profitability played a role in expanding the investment rate from 16.6 to 18 percent between 2003 and 2007, a 32 percent increase in investment at constant prices. The GDP growth rate went from 1.1 percent in 2003 to 6.1 percent in 2007 (IBGE, 2016).

Initially, the crisis of neoliberalism had a limited effect in Brazil despite the drop of commodities prices. The government employed expansionary fiscal and monetary policies to stimulate the demand for manufactured goods after the collapse of Lehman Brothers in late 2008. State-owned enterprises increased their investments and supply of credit. In 2010 the investment rate reached 20.5 percent of the GDP and economic growth hit 7.5 percent. The economic and political expectations were optimistic; the statue of Christ the Redeemer, representing Brazil, appeared on the cover of the *Economist* on November 12, 2009.

TABLE 1
Decomposition of the Net Profit Rate, 2003–2016

Period	*R*	π	ρ	*u*
2003–2016	−0.67	−0.65	0.19	−0.22
2003–2014	−2.78	−1.31	−0.99	−0.49
2003-2007	2.99	−0.03	1.11	1.91
2007–2010	−1.48	−0.79	−1.24	0.56
2010–2014	−3.76	−1.69	−0.79	−1.28
2014–2015	−5.20	−1.06	0.17	−4.31
2014–2016	3.96	1.87	4.79	−2.70

Sources: IBGE (2016; 2017), Marquetti et al. (2019).

The profit rate fell with the 2008 crisis, partially recovering in 2010. After declining in 2009, capacity utilization increased, reaching its peak in 2010. For economic and political reasons, the wage share continued to expand. The government responded successfully to the first effects of the crisis of neoliberalism. Lula said that the crisis had hit Brazil like a "little wave" (*marola*). However, the long-term path of the profit rate started to decline after the crisis.

Lula's government, especially in his second term, broke with two central tenets of neoliberalism. First, there was income transfer from capital to labor with the strengthening of workers' bargaining power as a result of the political and institutional changes and the decline in the unemployment rate from 12.3 percent in 2003 to 6.7 percent in 2010. Second, the government adopted a developmentalist policy. The financial gains resulting from high real interest rates on the public debt were preserved. The stock market gains were astonishing: the Bovespa, the main Brazilian stock market index, multiplied by 6.4 between December 2002 and December 2010. Any attempt to reduce the financial gains would have ended the implicit agreement expressed in the "Letter to the Brazilian People." Despite deindustrialization, manufacturing expanded by 27.4 percent between 2002 and 2010 (IBGE, 2018). Land prices increased after 2002 (Bacha, Stege, and Harbs, 2016). There was a strengthening of the social alliance established in the 2002 election. The economic and political conditions allowed policies of social inclusion and an increase in the real wage above labor productivity. Economic growth was the feature that unified the groups of interest. It allowed the PT to combine redistributive and developmentalist policies with some central tenets of neoliberalism.

PROFITABILITY AND INCOME DISTRIBUTION IN BRAZIL, 2010–2014

In an optimistic environment, Rousseff was elected president in 2010. Real GDP has expanded by 4 percent annually between 2002 and 2010. However, sustaining the growth after overcoming the first effects of the crisis would have required changes in economic policy to adjust to the emerging dynamics of the world economy. Moreover, the elements that had contributed to the rising profit rate and the growth acceleration under Lula's administration were exhausted. The coalition that elected Rousseff was different from Lula's. The

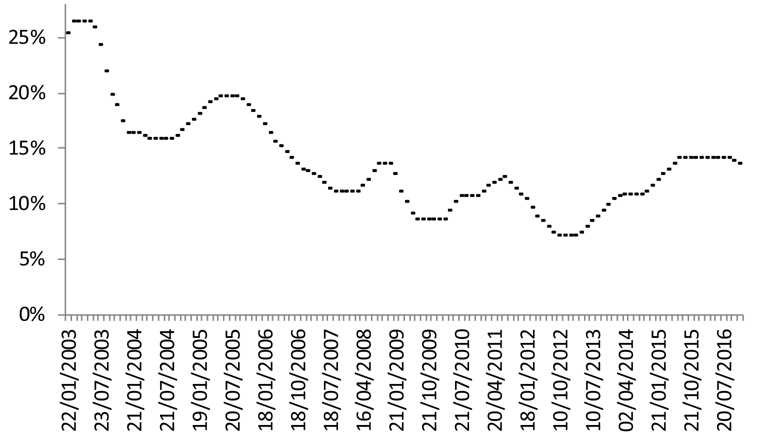

Figure 3. The benchmark SELIC rate, 2003–2016 (Banco Central do Brasil, 2017).

vice president was Michel Temer, a politician with a long career in the PMDB, and the Central Bank president was Alexandre Tombini, a civil servant. The PT, through its apparent success in overcoming the crisis of neoliberalism, sought to broaden its degrees of freedom for the development of economic policy. Rousseff's approval rating of more than 70 percent allowed her to promote changes.

The global capitalist economy imposed challenges on Brazil. Between 2010 and 2011, the downturn in world trade and aggressive monetary policy in the United States had two effects on the Brazilian economy: A decline in demand in the developed countries shifted global oversupply to countries with a growing internal market, and the real appreciated further with the influx of speculative capital in search of high interest rates. Domestically, the high level of capacity utilization indicated that to maintain 4 percent growth would require an increase in the investment rate. In the government's view, greater investment by the private sector would enhance the firms' competitiveness, expanding productivity and reducing costs.

According to Augustin Filho (2012), deputy secretary of the Finance Ministry between 2007 and 2014, the basis for the expansion of private investment was the change in both the interest rate and the exchange rate. A devalued exchange rate, reinforced by infrastructure spending by the government through the Growth Acceleration Program, would restore the competitiveness of manufacturing. Another element of the growth strategy was investment in the exploitation of large offshore oil reserves by Petrobras and the policy of national content in the downstream activities related to petroleum production. Petrobras announced the discovery of the Pre-Salt oil reserves in 2006 and started production in those fields in 2010. The condition for the depreciation was a reduction in the interest rate and lower foreign capital inflows. The Central Bank cut the target of the SELIC rate from 12.5 percent per year in August 2011 to 7.25 percent in October 2012 (Figure 3). Moreover, the public banks increased their competition with the private sector, expanding their market share to 40 percent of credit operations in the early 2010s.

The reduction of the SELIC started a dispute with the financial sector and the productive companies for which financial gains on the public debt were an

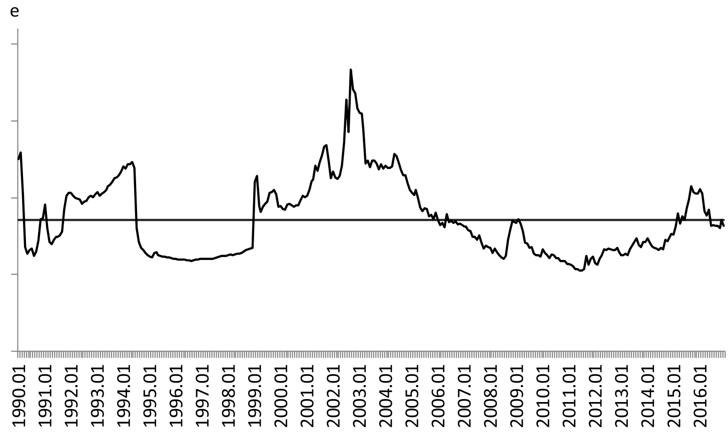

Figure 4. Monthly and average real exchange rate (the price of US$1 in reals in December 2016 prices), 1990–2016 (IPEA, 2019).

important element of their profitability. There were strong criticisms in the national and international press. For Loyola (2011), former Central Bank president, the decline of the SELIC violated fundamental principles of the inflation-target regime and the independence of the Central Bank. On May 10, 2012, Bloomberg published the article "In Dilma versus Banks, Round One Goes to Government" about the dispute over the interest rate (Phillips, 2012). The class coalition constructed by Lula's administration had started to fall apart. For the financial sector, the government had abandoned the "Letter to the Brazilian People" (Perez and Vaccari, 2017).

The economic measures produced some exchange-rate depreciation (Figure 4),[3] but they did not avert a decline in economic growth. The Brazilian Institute of Geography and Statistics (IBGE, 2012) reported a GDP growth rate of 2.7 percent for 2011, a major decrease from the 7.5 percent of the previous year. The rapid slowdown induced further changes in economic policy. The so-called new economic matrix included an increase in tax exemptions and subsidies, the use of public banks to reduce the spreads and lower interest rates, the use of sectoral measures for reducing costs such as intervention in the electricity industry by extending concession periods in exchange for lower prices on power, exemptions from payroll taxes, and the offer to firms of loans with subsidized interest rates by the Banco Nacional de Desenvolvimento Econômico e Social (National Bank for Economic and Social Development—BNDES).

Briefly, the government attempted to expand investment with two sets of measures. The first aimed to expand profitability through fiscal and cost reductions. The second aimed to reduce the interest rate for investment in production. Higher economic growth would increase fiscal revenues. However, the IBGE (2013) announced that the GDP growth rate in 2012 was 0.9 percent.[4] The reduced growth prompted further criticism of economic policy. For example, Goldfajn (2013), chief economist and partner of Itaú Bank, wrote, "It is necessary to temporarily slow down both consumption, adjusting it to supply, and the labor market, adjusting wage increases to growth of labor productivity. Tax exemptions only postpone the adjustments needed."

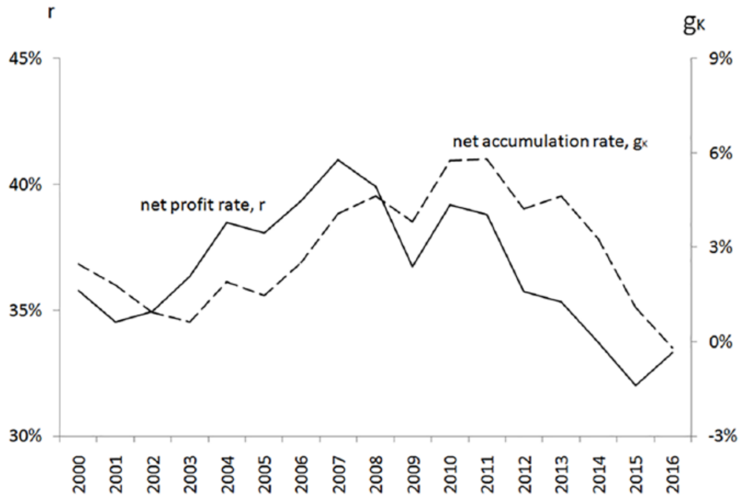

Figure 5. Net profit rate and capital accumulation, 2000–2016 (IBGE, 2016; 2017; Marquetti et al., 2019).

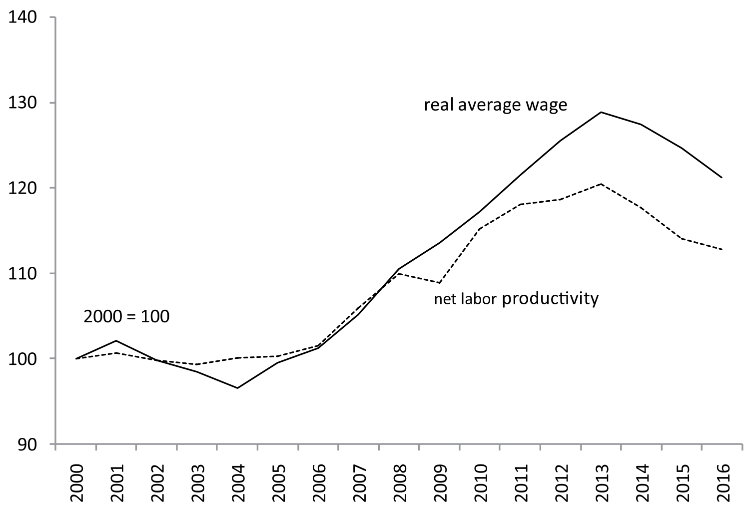

Figure 6. Real average wage and net labor productivity, 2000–2016 (IBGE, 2016; 2017; Marquetti et al., 2019).

The main result of the new economic matrix was to maintain the investment rate above 20 percent between 2011 and 2014. Capital accumulation (the growth rate of capital stock), though declining after 2011 with the falling profit rate, was more than 4 percent between 2011 and 2013 (Figure 5). Labor demand continued to expand, the unemployment rate reached 4.8 percent, the annual growth rate of the real wage (Figure 6) was 2.1 percent, and labor productivity increased by 0.53 percent between 2010 and 2014.

The profit rate plunged after 2011. The main factor was the declining share of net profits, from 51 percent in 2003 to 49.2 in 2011 and then to 46.5 percent in 2014 (see Table 1). Capacity utilization and the potential productivity of capital also fell between 2011 and 2014. The simultaneous decline in the profit rate and financial profitability was the beginning of the end of the class coalition constructed by Lula's government. Singer (2015) describes how segments of the industrial bourgeoisie went to the opposition in 2012 and 2013. The new economic policy failed to maintain the GDP growth rate between 2011 and 2013, and there was criticism that the government had abandoned the key macroeconomic fundamentals of the market. Expectations were of further decline of the profit rate as workers' bargaining power increased. The number of strikes in the private sector skyrocketed in early 2010, rising from 264 in 2009 to 1,106 in 2013 with the mobilization of categories at lower levels of organization typical of periods of greater bargaining power of labor and its unions (DIEESE, 2015). In a context of reduced manufacturing competitiveness, global economic slowdown, and an appreciated exchange rate, the rise in workers' purchasing power increased the demand for imported and nontradable goods. The manufacturing share of value added declined from 16.5 percent in 2008 to 12 percent in 2014. The manufacturing and service sectors were not prepared for the increase in demand generated by higher incomes (Rugitsky, 2016).

The tax incentives granted by Rousseff's government to the private sector went from R$3.6 billion in 2011 to R$100.6 billion in 2014. The primary surplus declined from 2.13 percent of the GDP in 2011 to –0.32 percent in 2014. Supposedly, the tax relief and the reduced cost of financing would expand investment and economic growth. However, private companies reduce their investment in periods of declining profitability. Despite the subsidies, for many nonfinancial enterprises the cost of capital was greater than its actual profitability. The return on investment of the industrial enterprises listed on the Bovespa declined from 10.2 percent in 2010 to 0.4 percent in 2015 (IEDI, 2016: 20).

In 2013, social unrest emerged for the first time under the PT's governments. There was a series of public protests with diffuse goals. Initially, the protest was organized by the leftist Free Fare Movement against the rise in public transport fares, but conservative sectors of the middle class began to participate and the protests eventually encompassed concerns such as the need for improvement in public services, the costs of organizing the World Cup, and corruption. The protests increased in magnitude, and there were reports of participants' rejecting any link with the political parties (Garcia and Pedersoli, 2013). On June 20, 2013, more than a million people protested all over the country. The 2013 protests were complex social phenomena that are still attracting attempts at a coherent interpretation.

The massive protests required an answer from the government. Rousseff's popularity suffered a major setback with the government's inability to make concrete proposals on the issues raised in the streets. Another consequence was, for the first time since democratization, the organization of right-wing groups, some of which had connections with the far right in the United States and had played a role in the soft coup.[5] The government moved to improve its approval ratings in anticipation of the 2014 presidential election with efforts to keep unemployment low and inflation under control. Given the growing difficulty of meeting the primary-surplus target set by the National Congress, it delayed the transfer of funds to public banks to cover budget deficits. This procedure, which started in 2000, was expanded in 2013 and 2014 as fiscal problems mounted.

In the electoral campaign Rousseff recognized the economic problems (the GDP expanded just 0.1 percent in 2014) and said that adjustments would be gradual so as to preserve employment and social achievements—central goals of her electorate. The narrow margin with which she was reelected, with 51.6 percent of the vote, the great rejection in most industrialized regions, and the fierce opposition during the election campaign indicated that, in addition to economic hardship, the president would face political difficulties in her second term. The first Rousseff government crystallized some of the contradictions of the PT's relationship with neoliberalism. The government assumed a more proactive role, stimulating private investment through tax exemptions and lower interest rates instead of increasing public-sector investment. A genuine cleavage was perceived between productive and financial capitals in neoliberal capitalism. The reduction of the interest rate was expected to reduce the gains of financial capital and benefit productive capital, which would expand investment. Public investment was to play a secondary role in stimulating economic growth. The new economic matrix failed to stimulate growth and revealed a misconception about neoliberalism, in which financialization in fact permeates the entire structure of production. Recognizing this misconception helps explain the contradictory position of the Rousseff government with regard to neoliberal policies, breaking with some while preserving others, and the limitations of her economic policy in attempting to overcome the decline of growth associated with falling profit rates.

THE RETURN TO NEOLIBERAL HEGEMONY: THE SECOND ROUSSEFF GOVERNMENT

Rousseff won the 2014 election with strong support from left-wing voters. During the campaign, there were charges that an opposition victory would represent a return to neoliberal economic policy, with negative effects on employment, real wages, and social spending. Despite the announcement of a replacement of the economic team in the event of Rousseff's reelection, the social movements and leftist organizations reacted with surprise and criticism to the change in economic policy signaled by the appointment of Joaquim Levy as finance minister. Levy, an economist trained at the University of Chicago, was working in the financial sector when his appointment was announced. Seeking a rapprochement with the sectors of the bourgeoisie and, contrary to her promise during the campaign, Rousseff adopted an economic policy with neoliberal hegemony. Apparently the idea was to repeat the success of 2003, but there were limits to her ability to make concessions to recover the support of the bourgeoisie.

The first fiscal measures, announced in January 2015, restricted workers' access to unemployment insurance and changed the rules for some social security benefits. There was a reduction of fiscal spending; federal government investment declined 32 percent in 2015. The increase in public prices concomitant with the exchange-rate devaluation increased inflation to 11.07 percent in 2015. The Central Bank increased the SELIC by 300 points between October 2014 and July 2015. (Changes in the SELIC have a lag of two to four quarters in affecting the GDP.) Moreover, Petrobras reduced its investments by a third between 2013 and 2015. The combination of contractionary fiscal and monetary policies with cyclical downturn and falling commodities prices led to a profound economic crisis. In 2015, there was a 14 percent decline in investment and a 3.8 percent decline in the GDP. The unemployment rate rose to 6.8 percent and the average real wage declined. The profit rate plunged because of the decline of the level of capital utilization.

Operation Car Wash, an investigation of money laundering and corruption, and its selective leaks to the press stimulated a climate of belligerence against the government. There was significant media coverage, and Judge Sérgio Moro was the new hero.[6] Instead of economic growth, now there was a recession with increasing unemployment and shrinking profits and wages. The economic crisis reinforced the political crisis and the links made by the press and the right-wing political parties between the economic crisis, corruption, and the PT governments. A 2015 survey found that 67 percent of Brazilians believed that corruption was the main reason for the economic crisis (Alencar, 2015). The media linked the economic and political crises. In early 2016, *O Globo* (2016) published an editorial entitled "Impeachment Is an Institutional Way Out of the Crisis." The media coverage of Operation Car Wash and the economic crisis allowed the organization of a large right-wing coalition composed of the far right, the agrarian, industrial, and financial capitalists, the conservative sectors of the judiciary, and the corporate media.

Throughout the year, the streets were taken over by right-wing sectors protesting against the government and calling for the impeachment of President Rousseff, who saw her approval rating sink to 11 percent by late 2015. The right-wing coalition delegitimized the PT government among the popular sectors through the association of the economic crisis with the corruption scandals, recovering the climate of the 2013 protests. Segments of the workers and the middle classes gradually joined the protesters against Rousseff and the PT.

In December 2015, Nelson Barbosa replaced Joaquim Levy as finance minister. For economic and political reasons there was limited room for change. The fiscal position had been compromised by the stimulus to private investment and the negative growth. Barbosa proposed a soft austerity, combining higher fiscal expenses in the short term with change in the social security rules and the return of the tax on financial transactions. These proposals were criticized by the opposition and sectors that supported the government. The political strength of the government in the Congress declined after the adoption of austerity measures. The rural caucus gradually moved into opposition as the government lost its popular support and failed to comply with the demands of the agribusiness sector, which traditionally relied on public credit and subsidies.

In December 2015 the São Paulo State Federation of Industries announced its support for impeachment (G1, 2015), and this position was adopted by other business organizations, including the National Confederation of Agriculture and Livestock, in April 2016 (CNA, 2016). These organizations argued that impeachment was the only way out of the economic and political crises. In their view what was needed was fiscal adjustment based on the reduction of public expenditures without any increase in taxes; otherwise the government would not regain the confidence of the markets and the wealthy. The business sectors that had allied themselves with the government in order to reap benefits in the bonanza period switched sides during the crises. They had never forgotten the leftist origin and the popular support of the PT governments. Moreover, the financial sector had always criticized the social democratic character of the Brazilian constitution. Goldfajn (2015) wrote that "since the 1988 Constitution the society has adopted a large 'social contract' whose benefits for various social groups are no longer consistent with the GDP. The tax burden necessary to pay for this welfare state is already paralyzing the economy. . . . You cannot waste the chance of a crisis to make the hard changes."

The PMDB, the party of Vice President Michel Temer, proposed the hard changes in October 2015. The document *A Bridge to the Future* (Fundação Ulisses Guimarães, 2015) presented a series of neoliberal measures aimed at expanding profitability and controlling the fiscal deficit. The document suggested the reduction of labor costs, changing the minimum-wage indexation rule, reform of the labor law, social security reform, eliminating constitutional rules on spending on education and health, privatization, and trade openness. The proposals were consistent with a radical neoliberal turn proposed by the bourgeoisie and went far beyond the political possibilities and the history of the PT. The document represented a manifesto for a government led by Temer.[7] The neoliberal turn in economic policy after the election was a fundamental mistake by a government that was facing ferocious political opposition. The adoption of a program similar to the proposals of Aécio Neves, the Social Democracy candidate, was a signal that the critiques from the opposition were correct. Moreover, this move increased criticism and reduced the government's political support among its popular sector constituents.

The strategy of growth through subsidies and incentives for private investment in a period of declining profit rate and profit share was a mistake of the first Rousseff government. The Institute of Industrial Development Research, a think tank linked to big Brazilian industry, expressed in the title of its newsletter in July 2016 the reason investment had not expanded: "No Profits, No Investments" (IEDI, 2016). The subsidies and fiscal incentives resulted in large fiscal deficits after 2013. The mistake of the second Rousseff government was the adoption of a neoliberal economic policy, which drove an increase in the profit rate in 2016 due to increasing profit share and potential productivity of capital despite declining capital utilization. The economic policy increased unemployment and reduced the real wage. As the political and economic crises deepened, Rousseff alienated herself from the capitalists and the popular sectors. The sharpening of the economic crisis opened the door for her impeachment.

FINAL REMARKS

Lula's election in 2002 was a victory for the social groups that were opponents of or dissatisfied with neoliberalism. However, the PT governments did not represent a rupture with neoliberalism. Their strategy was pragmatic and moderate, combining elements of developmentalism and neoliberalism in a contradictory construction. There was a redistributive policy with regard to the poor and an expansion of the wage share, but the profit rate initially increased and the high interest rate on the public debt was maintained most of the time. A neoliberal economic policy was hegemonic in 2003–2005 and 2015–2016, while developmentalism was hegemonic between 2005 and 2014.[8]

Benefited by rising commodities prices and an economic policy that gradually abandoned some of the tenets of neoliberalism, the profit rate and the wage share increased between 2003 and 2007. There was an increase in investment, and higher wages stimulated family consumption. The economic growth consolidated the class coalition under Lula's leadership that combined different social sectors of Brazilian society, from different segments of the capitalist class to industrial workers. The favorable international conditions changed after the crisis of neoliberalism in 2008. In 2009 it might have been possible to introduce major economic reforms in order to reduce the power of the financial sector, but a confrontation with neoliberalism would have destroyed the government's political coalition.

The 2008 crisis eliminated the conditions that allowed the concomitant growth of wages and profits. Rousseff had the task of preserving the class alliance that had supported Lula's administration. Her government adopted a series of fiscal and financial stimuli for private investment in a period of declining profitability. The result was a decline in the GDP growth rate and fiscal imbalances. As the profit rate plunged and economic policy maintained the gains in workers' income, the broad alliance with the capitalist sectors began to collapse. As the political confrontation intensified, expectations of profitability and economic growth further declined. Rousseff won the 2014 election with the support of Brazil's poorest regions. In her second term she attempted to restore the former alliance, adopting a neoliberal economic policy with a program of fiscal austerity that generated a 3.8 percent decline in the GDP and an inflation rate of 11 percent in 2015. The recession provoked a sharp rise in unemployment and the deterioration of the fiscal budget. The neoliberal turn did not restore the confidence of the capitalist class and reduced the PT's political support among the leftist sectors of Brazilian society.

Operation Car Wash provided fuel for the large political demonstrations against Rousseff, Lula, and the PT. The demonstrations produced a political amalgam of right-wing groups that opposed the government. Moreover, the popular sectors had little reason to support a government that had implemented an austerity program. These developments reduced the capacity of the PT to fight Rousseff's impeachment, and this made possible the restoration of central tenets of neoliberalism that had been put on hold by the PT governments, particularly the compression of real wages. The political stability achieved under Lula's leadership was derived from the conditions that enabled an increase in the profit rate concomitantly with a better income redistribution, which allowed the construction of an alliance between different social sectors. When these conditions changed, the political alliance lost support, producing a reaction from the capitalist sectors in an attempt to recover profitability with a resumption of full neoliberalism.

From this perspective, the PT governments did not confront the foundations of neoliberalism implanted in the 1990s. They did, however, open up space for a set of policies that increased the bargaining power of workers and reduced inequality and poverty. Policies that increase the power of workers in the class struggle are against neoliberalism, but the capitalist class did not perceive these policies as confrontational until the profit rate started to decline. The PT lost power when the cycle of left-wing parties in government in most of the South American countries was also ending. The crisis of neoliberalism with the end of the commodities boom limited the capacity of the leftist governments to maintain economic gains for the different social classes. The PT governments distributed some of the gains of economic growth to workers and the poor. The crisis of neoliberalism, paradoxically, allowed the implementation of a deepened version of neoliberalism in Brazil with the impeachment of Dilma Rousseff.

APPENDIX: THE PROFIT RATE AND ITS COMPONENTS

The profit rate path is related to three factors that explain the sources of crisis in a capitalist economy (Weisskopf, 1979): (1) the decline in the profit share due to greater bargaining power of workers (in this case, wages rise faster than labor productivity); (2) the decline in the potential productivity of capital due to the increasing organic composition of capital associated with technical change and capital accumulation; and (3) the decline in the level of capacity utilization due to reduced aggregate demand.

The profit rate is the ratio between total profits and total advanced capital. Weisskopf (1979) proposed a decomposition of the profit rate, r, that allows the determination whether change in it over time depends on the profit share, π, the level of capacity utilization, u, and the potential productivity of capital, ρ. The profit rate is computed by

$$r = \frac{Z}{K} = \frac{Z}{X} * \frac{X^P}{K} * \frac{X}{X^P} = \pi \rho \, u$$

where Z is net profit, K is net capital stock, X is net output, and X^P is net potential output.

The profit rate is the ratio between net operational surplus and net stock of fixed capital. The net stock of fixed capital was estimated through the perpetual inventory method. The net profit is the net domestic product minus the compensation of employees. The compensation of employees includes the labor component of the combined income. The potential productivity of capital is the ratio between the net domestic product trend and the net stock of fixed capital. The net domestic product trend was computed using the Hodrick-Prescott filter. The level of capacity utilization is the ratio between the net domestic product and its trend. For some years, this ratio can be greater than one. Marquetti et al. (2019) present further information on the construction of the variables.

NOTES

1. Singer (2012: 10–11) argues that Lula “maintained the neoliberal order established in the mandates of Collor and FHC” and “avoided the confrontation with capital and adopted a

conservative economic policy." Sader (2011: 124) says that the "leftist sectors that have remained in the PT . . . struggle in order to allow the government to change its route . . . exerting pressure within the framework of recognized contradictions. . . . Especially after 2005 . . . the Lula government moved to a new phase."

2. Bruno (2007) investigates the relationship between financialization and SELIC rate in Brazil. Augustin Filho (2016) discusses the SELIC's effects on private investment, public debt, fiscal variables, the exchange rate, and the balance of payments.

3. The real exchange rate was computed as the nominal exchange rate multiplied by the ratio between the U.S. Consumer Price Index computed by the Bureau of Labor Statistics and the Expanded Consumer Price Index computed by the Brazilian Institute of Geography and Statistics. The real exchange rate is expressed in December 2016 prices.

4. In the System of National Accounts Reference 2010, the GDP growth rate for 2011 was revised from 2.7 to 3.9 percent and that for 2012 from 0.7 percent to 1.9 percent (IBGE, 2016).

5. According to Puty (2018) and Fiori and Nozaki (2019), there are many signs that the U.S. government played a role in the Brazilian soft coup. The Brazilian approach to China and the discovery of the Pre-Salt oil reserves were the focus of attention from the White House. Combating corruption became a tool for safeguarding the interests of the United States.

6. The Intercept has just published, using leaked telegram messages, a series of journalists' reports that Moro acted as both judge and prosecutor in Operation Car Wash (Greenwald, Demori, and Reed, 2019).

7. Several proposals of the neoliberal economic program presented in *A Bridge to the Future* were implemented by Temer's and Bolsonaro's governments.

8. Augustin Filho (2016) called the 2005–2014 period "the developmentalist trial" and 2015–2016 "the neoliberal shift."

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