The limits of Brazilian development between 2003 and 2016

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Abstract

This article examines Brazil's economic experience between 2003 and 2016, its limits in promoting development and structural change while analyzing the policies adopted and their consequences. The economic growth model based on the conciliation of competing interests and the maintenance of liberal orthodoxy proved unsustainable in the medium term. Maintaining the overvalued exchange rate and high interest rate hindered industry and national development. The timid attempt at developmentalism could not contain the process of deindustrialization and financialization. The neoliberal agenda was maintained, which prevented structural changes and deepened financialization.

Keywords: economic development; neo-development; deindustrialization; financialization; Brazil.

1. INTRODUCTION

The Latin American debt crisis of the 1980s severely weakened national economies, leading to a long period of rising inflation. In the 1990s, unable to resolve the crisis and pressured by the emerging Washington Consensus arrangement, governments submitted to structural adjustment and reforms advocated by the World Bank and the International Monetary Fund (IMF). These reforms allowed for privatization and trade and financial liberalization, although they failed to return to the growth levels of the previous period (1950-1980). Per capita growth rates in the region did not exceed 1%, while inequality and financialization deepened (Bresser-Pereira, 2018).

In Brazil, the Fernando Collor government (1990-1992) marked the abandonment of developmental policies and the introduction of reforms to open up the domestic market, giving the country a neoliberal turn. As such, "neoliberalism" can be characterized as a historical process informed by a theoretical-practical conceptualization of the economy and society, which understands welfare as a result of the guarantee of individual freedoms and the market (Dardot and Laval, 2014). To achieve this, the role of the State is to ensure the institutional arrangement that makes these freedoms, property rights and defense viable. State action should be restricted to areas where the market cannot meet demand (in other words, water, education, security, environmental protection and health). Since the 1970s, the economic policies of Western countries have been strongly influenced by this conception through deregulation, privatization and reduction of state provision in areas of social interest (Harvey, 2007). According to Araujo and Bresser-Pereira (2018), this neoliberal process arrived in Brazil in the 1980s, presenting itself as the modernization required by a globalized world.

The economic crisis, coupled with the failure of the neoliberal reforms instituted by the "Collor Plan",[1] led to the impeachment of President Collor in 1992. Brazilian inflation was controlled in 1994 with the creation of the Real Plan by the new government of Fernando Collor's successor and vice-president, Itamar Franco (1992-1994). In its first years, the Real Plan managed to ensure inflationary stability, but it was in 1997, under the government of Fernando Henrique Cardoso[2] (1995-2002), that its internal limits and the impact of the Asian, Russian and Mexican crises repeatedly tested the capacity of the Real to ensure stability through parity with the dollar in a context of shortage of currencies (Saad-Filho and Morais, 2018).

In 1999, the adoption of a new macroeconomic arrangement based on a floating exchange rate, fiscal surplus and inflation targets - conventionally referred to as the macroeconomic tripod - was accompanied by the devaluation of the Real, rising inflation and, consequently, the maintenance of the high interest rate to meet inflation targets (Saad-Filho and Morais, 2018). Between 1999 and 2002, this arrangement failed to resume rapid and sustained growth but meant the consolidation of neoliberal reforms and the emergence of a new axis of financial accumulation: public debt (Bruno, 2011). The governments of Collor and Cardoso seem to reflect a more advanced stage of the economic and political elements of the collapse of the historical developmentalist bloc. The structural adjustment and liberalizing reforms imposed on the Brazilian economy in the 1990s contributed to the destruction and dismantling of developmental macroeconomic and industrial policies and the deindustrialization and weakening of social and trade union forces.

Thus, upon coming to power in 2003, the Partido dos Trabalhadores (PT) faced a country with significant challenges for development. Despite starting industrialization and being a middle-income nation, the Brazilian economy was peripherally embedded in the international financial system and unable to grow at the levels necessary to reduce inequality. Moreover, the weakening of social forces (unions and popular movements) and the strengthening of new interest groups linked to the financial market represented the emergence and consolidation of a new power bloc with diverse and conflicting interests throughout the PT governments (De Oliveira, 2015).

Over the last two decades, the Argentine and Brazilian experiences have been described, and critical economists and sociologists of neo-developmentalist inspiration have defined their limitations. For example, Costantino and Cantamutto (2017) describe neo-developmentalism in Argentina as a response of the power bloc itself to contain the crisis of the neoliberal model catalyzed by the end of Convertibility in 2001. In other words, it is a process of hegemonic construction led by industrialists and presented as a progressive program made possible by real concessions - due to conviction or necessity - capable of adding different social groups to the process (Costantino and Cantamutto, 2017; Katz, 2014). For his part, Bresser-Pereira (2018) uses the term neo-developmentalism to reject the insufficiently developmental essay attempted by the PT governments (2003-2016).

Although classical developmentalism was conceived in the context of the struggle for dominance between the United States and the Soviet Union after World War II, neo-developmentalism can be understood as a response to the crisis of neo-liberal programs in Latin America (Katz, 2006). In general terms, neo-developmentalism is a theoretical system conceived at the beginning of the 21st century that draws on elements of classical developmentalism and post-Keynesian theory, which can be understood in three distinct areas: political economy, microeconomics and macroeconomics. Political economy addresses issues related to capitalism's economic and political organization, nationalism, developmental class coalitions, and the critique of modern imperialism. On the other hand, microeconomics focuses on the rate of profit needed to stimulate business investment, adopting the labor-value theory and emphasizing growth as a result of the transfer of labor to more productive sectors. In turn, neo-developmental macroeconomics is the most advanced field and focuses on the five main macroeconomic prices: interest rates, exchange rates, profits, inflation, and wages (Bresser-Pereira, 2019).

This paper, based on developmental macroeconomics and from an analytical viewpoint of political economy, aims to discuss the Brazilian experience between 2003 and 2016 and its limits in pursuing economic development and changes in the economic structure. To this end, the economic policies adopted and their consequences were analyzed.

The first section presents the main concepts mobilized by neo-developmental macroeconomics to analyze the economic structures of middle-income countries that have begun industrialization. It then analyzes the Brazilian experience under the PT governments and its limits in promoting structural change.

2. NEO-DEVELOPMENTAL MACROECONOMICS AND OBSTACLES TO ECONOMIC DEVELOPMENT

Neo-developmentalism emerged with elements of the developmental approaches of the 1950s and 60s -which needed to be updated as a theoretical proposal- and as a counterpoint to the Washington Consensus (Bona and Wainer, 2021). However, unlike classical developmentalism, which presupposes poor and underdeveloped economies, neo-developmentalism is presented as a theoretical framework to explain the level of economic growth in middle-income developing countries that have seen their industrialization process interrupted by Dutch disease and dependence on the center of the international financial system.

In these economies, exchange rate overvaluation, external constraints and financialization represent serious obstacles to economic development. Exchange rate overvaluation prevents efficient companies from accessing demand; external restriction increases the cost of expanding productive capacity and sometimes makes it unviable; and the high interest rate policy deepens exchange rate overvaluation and the financialization of the economy (Salama, 2019). Both situations hurt the rate of profit and, therefore, investment, the expansion of productive capacity, and the country's economic growth.

The overvaluation of the exchange rate is the result of the large inflow of foreign currency from Ricardian revenues from the exploitation of natural resources, a dynamic known as Dutch disease (Humphreys *et al.*, 2007; Bresser-Pereira, 2010; Palma, 2014). In economies without Dutch disease, the current account equilibrium exchange rate is equivalent to relative price equilibrium; in other words, it follows the tendency to equalize the profit rates of all sectors of the economy. Meanwhile, in economies with Dutch disease, the current account equilibrium exchange rate is overvalued due to exports of products with Ricardian revenues (generally commodities). Despite maintaining the current account equilibrium, this overvaluation is incompatible with the profit rate of technologically advanced and internationally competitive companies in terms of production, thus contributing to the interruption of industrialization in these economies. Unlike exchange rate appreciation caused by capital flows, which is conjectural and commonly associated with a high interest rate, Dutch disease is a structural cause and, if not neutralized, is a permanent obstacle to industrialization, development of technology, increase in productivity and per capita revenue and to economic growth (Bresser-Pereira *et al.*, 2016).

Neo-developmentalist macroeconomics is the result of the contribution of several researchers throughout the 2000s compiled in the book *Macroeconomia desenvolvimentista: teoria e política econômica do novo desenvolvimentismo* (Bresser-Pereira *et al.*, 2016). In this theoretical framework, five prices are classified as macroeconomic and central to the functioning of the economy: exchange rate, interest rate, wages, inflation rate and profit rate. Based on these prices and the diagnosis of the structural obstacles to the economic development of underdeveloped middle-income economies, a set of alternative policies to those indicated by liberal orthodoxy is proposed. The main differences lie in the proposals on monetary, exchange rate and fiscal policy, as well as in the measures for the control of inflation, current account deficits and the neutralization of Dutch disease. Furthermore, the neo-developmental proposal also includes social and redistributive policies that allow sustained economic growth with social inclusion through an increase in the minimum wage, the domestic market, and investment in health, education, transportation, and public services (Sicsú *et al.*, 2007; Bona and Wainer, 2021).

Unlike liberal orthodoxy, neo-developmentalism calls for maintaining the interest rate at a relatively low level, as well as a competitive exchange rate policy and a fiscal policy that, despite being responsible, also has countercyclical elements (Bresser-Pereira *et al.*, 2016). Furthermore, the growth policy with external savings is understood as a current account deficit policy because, in these countries, it results in an increase in consumption and not in investment, generating external indebtedness and a balance of payments crisis. Instead, the search for current surpluses linked to the neutralization of Dutch disease is adopted (Bresser-Pereira and Gala, 2008).

Despite the political freedom of governments, either due to international financial and institutional restrictions or the ideological dominance of neoliberalism, Brazil seems to have accepted its specialization as a commodity exporter. Thus, in addition to the overvaluation of the exchange rate caused by Dutch disease, the value of the exchange rate fell below the rate that guarantees a balanced current account due to the adoption of policies that value the currency and are commonly recommended by orthodox economists (Bresser-Pereira *et al.*, 2016). Thus, the policies of growth with external savings and exchange rate anchoring, adopted in the governments of Fernando Henrique Cardoso, and the high interest rate maintained by the governments of Luiz Inácio Lula da Silva and Dilma Rousseff, by deepening the appreciation of the exchange rate, contributed to premature deindustrialization.[3]

In addition to lowering profit and investment, the high interest rate is also associated with the Brazilian economy's financialization process. This change occurs in a context of exchange rate hierarchy[4] in the international system, in which the currencies of the central countries, despite having a lower liquidity premium, are considered safer by investors and are therefore preferred in times of uncertainty, which explains the flight of capital to central countries. In this context, less developed countries maintain a higher interest rate to attract capital and try to reduce the volatility of financial flows, which generates a restriction in economic policy. The inflow of capital attracted by the high interest rate, in turn increases the exchange rate appreciation caused by Dutch disease and, therefore, the high interest rate trap remains and further contributes to premature deindustrialization (Oreiro *et al.*, 2020).

Moreover, in developing countries with an economy marked by financialization, wealth accumulation begins to occur, predominantly through financial channels, to the detriment of production activities. Significant financial gains promoted by high interest rates drain resources invested in production (industry, trade and agriculture) (Bruno, 2011; Salama, 2019; Dowbor, 2017). In Brazil, Dutch disease and the growing financialization of the economy contributed to the premature deindustrialization observed in the 2000s.

3. LUIZ INÁCIO LULA DA SILVA'S GOVERNMENTS: ECONOMIC GROWTH AND INCOME DISTRIBUTION WITHOUT STRUCTURAL CHANGE

In 2002, the effects of the Real crisis and the exclusionary results of neoliberalism, especially the increase in poverty, inequality and unstable labor, highlighted the limits of the macroeconomic tripod. Political and economic instability in a scenario of growth and recognition of the PT contributed to the election of Luiz Inácio Lula da Silva in the second electoral round with 61.27%, running against José Serra (PSDB) with 31.73%. However, when the PT came to power, it found the nation faced significant challenges for development. Despite having started its industrialization process and being a middle-income country, peripherally, the Brazilian economy was deeply embedded in the international financial system and could not grow at the levels required to reduce inequality. Furthermore, the weakening of unions and popular movements and the strengthening of groups linked to the financial market would represent the consolidation of a new power bloc, sufficiently stable and with diverse interests throughout the PT governments (De Oliveira, 2015).

The political coalition that brought Lula to power was a diverse alliance formed by the losers of the neoliberal period. Their alliance (Saad-Filho and Morais, 2018) was formed by the PT's support base, in other words, the unionized urban and rural working class and sectors of the professional middle class; sectors of the informal working class attracted by the defense of income transfer and social programs; sections of the national bourgeoisie who, despite supporting neoliberal fiscal, labor and social reforms, were hurt by high interest rates, competition from imported products, deindustrialization and the shrinking of the domestic market; and by right-wing oligarchs, landowners and local politicians from Brazil's poorest regions, who lost political influence to financial groups from the southeastern macro-region that began to fill spaces generally occupied by the traditional oligarchy in the National Congress (Saad-Filho and Morais, 2018; Singer, 2018).

In mid-2002, Lula's favoritism and defense of the rupture with the neoliberal model resulted in a period of strong speculation, exchange rate instability and capital flight. Thus, with the support of the leading national media, the financial groups' tremendous economic and political power pushed for the guarantee of the continuity of the macroeconomic tripod by the presidential candidates. Against this background, on June 22, 2002, to appease the markets and secure the election, Lula's campaign launched the Carta ao Povo Brasileiro, committing itself to the demands of financial capital. Despite initially appearing to be a campaign strategy, the proposals it contained were approved by the National Directorate of the PT and included in the government program of the Lula President Coalition, thus marking the abandonment of the program of structural reforms and criticisms of neoliberalism initially defended by the PT (Singer, 2012; Gontijo and Ramos, 2020; Rodrigues, 2015).

After making significant concessions to financial groups, Lula came to power as a political alliance incapable of offering consistent support to the government. This scenario would contribute to maintaining the macroeconomic tripod and economic policies implemented by Cardoso. In fact, in the first years of Lula's term, his economic policy was marked by a far greater fiscal adjustment than necessary, the pursuit of inflation targets and the continuous increase in interest rates to gain the confidence of the bourgeoisie and financial groups (Bresser-Pereira, 2016). Thus, instead of undertaking the structural reforms of the Popular Democratic Program drawn up with the organized working class and defended by the PT since the 1980s, the PT put into practice the program defended by liberal orthodoxy and a set of social policies aimed at winning over the most impoverished and disorganized sectors (Singer, 2012; Gontijo and Ramos 2020).

Between 2003 and 2006, the *Bolsa Família* program,[5] the significant increase in the real minimum wage and the expansion of family credit resulted in the reduction of poverty, the expansion of consumption and economic growth starting in 2004. This became known as the "Lula Real" and was made possible by the highly undervalued exchange rate inherited from the Cardoso period and the commodity boom driven by China's growth (Singer, 2018; Carvalho, 2018). Thanks to the appreciation of the Real and the maintenance of high interest rates, the Lula government managed to reconcile the control of inflation and financial market interests with the economy's growth, the minimum wage and investments.

However, the abandonment of structural reforms, the 2004 pension reform and the Mensalão[6] scandals in 2005 led to the rupture of part of the middle sectors with the PT. Even so, Lula remained strong and was reelected thanks to a qualitative change in the profile of his electorate, which Singer (2018) called "underground movements".

> [...] there was an underground movement of very low-income voters, who tend to remain invisible to analysts; [...] In the Mensalão period, the government effectively lost a significant amount of the support it had provided since the 2002 elections. Among the middle classes, rejection was transformed into a clear preference for an opposition presidential candidate in 2006. "Among Brazilians with a higher level of education, Lula's disapproval jumped 16 percentage points, from 24% in August to 40% today," writes Folha de S. Paulo on October 23, 2005. However, three months later, while the richest, following the previous bias, opted massively (65%) for the then PSDB pre-candidate, among those with a family income of up to five minimum wages, there was a turn in the opposite direction, with an increase in the satisfaction ratings with Lula's term in office (Singer, 2018, p. 16).

In 2006, Lula was reelected after the Mensalão scandals with the mandate to improve economic performance to maintain the stability of the PT government and rebuild its support base. After that, changes were made to the original (neoliberal) economic team, with the appointment of Guido Mantega[7] as Minister of Finance and Luciano Coutinho to the presidency of the National Bank for Economic and Social Development (BNDES). Nevertheless, the maintenance of Henrique Meirelles[8] as president of the Central Bank resulted in the continuity of the regime of inflation targets and high interest rates and, thus, the accumulation structure inaugurated by the macroeconomic tripod (Bresser-Pereira, 2016; SaadFilho and Morais, 2018).

Either because he understood that it was politically impossible to abandon the orthodox macroeconomic agenda or because he believed that Meirelles' permanence would help stabilize his government, Lula chose to introduce neo-developmental initiatives within the macroeconomic tripod, a juxtaposition that Saad-Filho and Morais (2018) called developmental neoliberalism and Bresser-Pereira (2016) categorized as social-developmentalism. The adopted policies included the launch of the Programa de Aceleração do Crescimento (PAC) in 2007, which coordinated public and private sector investments in energy, transportation and infrastructure. At the time, the PAC was accompanied by tax incentives for specific sectors and credit expansion through state-owned financial institutions, especially the BNDES.

After the 2008 crisis, public investment in education, health and housing (*Bolsa Família and Minha Casa Minha Vida*) was expanded and significant wage increases were implemented. However, the countercyclical policy was limited, as the Central Bank continued to raise interest rates until January 2009, which contributed to the stagnation of the Brazilian GDP and the fall in industrial production (Carvalho, 2018; Bresser-Pereira, 2016). Despite being significantly lower than the interest rates applied between 2002 and 2006, throughout Lula's second government, the basic interest rate of the Brazilian economy (Selic)[9] remained high, even in a scenario of inflationary control. The most significant reduction occurred in 2009 when it reached 8.50% in a countercyclical response to the 2008 crisis.

The high interest rate and the failure to neutralize Dutch disease further strengthened the Real, hitting US$1.70[10] in December 2010. Regardless of the degree of awareness, the country managed the exchange rate by maintaining the high basic interest rate and keeping the capital account open. In this context, as pointed out by Bresser-Pereira and Gala (2008), the categories of a fixed or floating exchange rate regime do not apply. This is because, by promoting arbitrage through monetary policy and flexible capital flows, the government lowered the exchange rate (strengthening it) during the analyzed period. In turn, the Selic at high levels represented an obstacle to productive activities by making it difficult to access credit and draining resources due to its high profitability. In addition, the high interest rate associated with the failure to neutralize Dutch disease would result, in the medium term, in the compression of profits and competitiveness of domestic companies.

Between 2003 and 2010, Lula's government managed to maintain the high interest rates desired by the financial market, to sustain the profits of the industrial bourgeoisie and to raise the minimum wage, access to credit and mass consumption. This, however, is at the expense of a more robust attempt at structural change in the regime of accumulation established by the macroeconomic tripod. Ultimately, this conciliation of conflicting interests was only possible for the duration of economic growth driven by increased Chinese demand for commodities and public investment, and this arrangement was already showing signs of wear and tear in Dilma Rousseff's first administration.

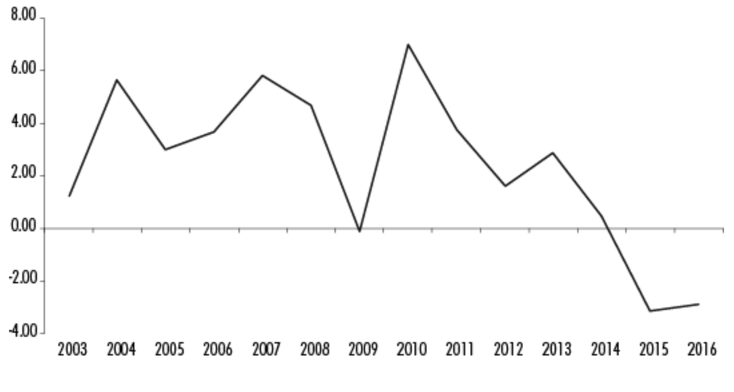
4. THE GOVERNMENTS OF DILMA ROUSSEFF: OBSTACLES AND LIMITS TO BRAZILIAN DEVELOPMENT

Lula's period was marked by income distribution, inequality reduction, and significant increases in the real minimum wage, which was reflected in Lula's widespread popularity. However, suppose, on the one hand, the overvaluation of the Real made it possible to raise the minimum wage and control inflation in a scenario of economic growth. In that case, it also explains the loss of competitiveness of national industry and the unsustainability of the growth model of the period. The strong exchange rate made domestic industrial businesses unviable, which, despite having state-of-the-art global technology, could not compete in the international market due to the price distortion promoted by the overvalued exchange rate. In addition, the increase in the real minimum wage, without productivity gains, compressed the rate of profit, while the high interest rate raised the costs associated with investments and consolidated itself as a new center of accumulation, more attractive and profitable than the productive sector.

In the context of an extremely strong exchange rate and loss of competitiveness in industry, Dilma Rousseff came to power without political support to push for the necessary depreciation of the currency, which at that time exceeded 50%. In an attempt to meet the demands of the productivist coalition (composed of the organized working class and industrial entrepreneurs), which since 1990 had been denouncing the deindustrialization process, this government adopted the agenda advocated by the Federation of Industries of the State of São Paulo (Fiesp). In 2011, the president abandoned the macroeconomic tripod and inaugurated the new macroeconomic matrix, or Fiesp Agenda, making tax exemptions, interest rate reductions (from 12.25 to 7.25%), expansion of credit lines and devaluations of the Real (Carvalho, 2018; Singer, 2015; Bresser-Pereira, 2016).

While the new matrix managed to produce a temporary acceleration in economic growth between August 2012 and March 2014, as of the second quarter of 2014, the pace of growth had collapsed (see Figure 1). This was due to the continued decline in return on equity (ROE), which became negative in real terms in 2014 (see Table 1). The industrial sector was the most affected by the ROE compression promoted by the fall in the profit rate. Among the leading causes were the increase in wages above labor productivity and the overvaluation of the exchange rate, which prevented the transfer of the salary increase to the prices of industrial products due to competition from imported products (Oreiro, 2017).

Figure 1. Gross Domestic Product-Real annual change (%)



Source: Ipeadata (2023). Compiled by the authors.

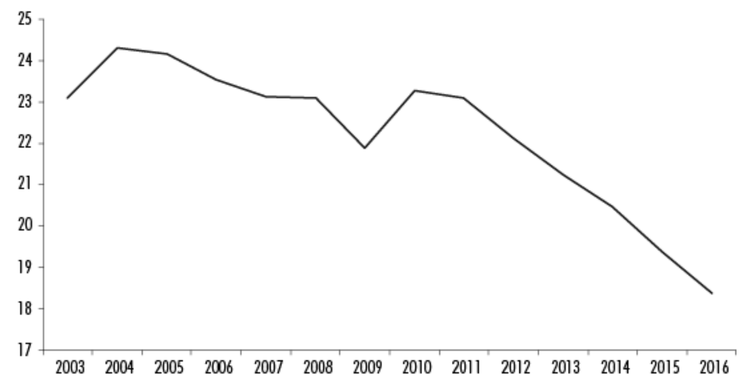
Table 1. Evolution of the ROE and Selic

Year	ROE (%)	Selic (%)
2010	16.5	9.8
2011	12.5	11.7
2012	7.2	8.5
2013	7.0	8.2
2014	4.3	10.9

Source: Rocca (2015) apud. Oreiro (2017, p. 79).

On the other hand, Selic's high profitability contributed to the increasing allocation of resources to financial activities to the detriment of productive activities. Thus, as of 2011, it was possible to observe a reduction in the industry's value added to the Brazilian GDP, which fell from 23.1% to 18.35%[11] in 2016 (see Figure 2). The deindustrialization process was also reflected in the industry's share in informal employment, which fell from 24.4% in 2011 to 20.8%[12] in 2016.

Figure 2. Value added of the industry (% of GDP)



Source: World Bank (2023). Compiled by the authors.

While under Lula's government, public investment was fundamental for economic growth, Dilma's tax exemptions and spending cuts did not achieve the same result. The interest rate reductions, besides not being sufficient to resume investment in industry, together with the expansion of credit granted by Banco do Brasil and Caixa Econômica Federal, ended up affecting the margins of private banks, being criticized by financial market representatives and analysts (Oreiro and D'Agostini, 2017). Furthermore, in a scenario of growth in manufacturing imports and a radical fall in the industry's profit rate, the 20% devaluation of the exchange rate was not enough to restore investment and competitiveness of the national industry (Bresser-Pereira, 2016).

In 2013, industrialists who previously advocated the new macroeconomic matrix progressively began to abandon their support for the government. The process of premature deindustrialization and financialization of the Brazilian economy meant that the remaining part of the industrial bourgeoisie had dual interests: both in policies promoting production and in those promoting the search for revenue (Singer, 2015). It is unsurprising that when the Fiesp Agenda did not yield the expected results, this bourgeoisie aligned itself with the interests of financial intermediaries and banks -which were also their interests-. Thus, under pressure from the financial market, even in 2013, the interest rate of the public debt would rise again and, from that point on, Dilma would abandon the new economic matrix in favor of the macroeconomic tripod.

In 2014, after being reelected by a narrow margin, the PT had to deal with the slowdown of the Chinese economy and the fall in the prices of raw materials, factors whose impacts were exacerbated by deindustrialization. However, the Brazilian recession that began that year was also the result of a contraction in productive investments due to low demand and the indebtedness of families and companies in previous governments (Oreiro, 2017; Oreiro and D'Agostini, 2017). Dowbor (2017) points out that the high interest rates practiced in Brazil in the 2000s played a central role in this slowdown of the economy, given that the financial market was draining the resources that should have financed productive activities through public and private indebtedness.[13]

In her second term, Rousseff eventually succumbed to financial market pressures by appointing banker Joaquim Levy as Finance Minister, abandoning the maintenance of social programs and the labor and income levels advocated throughout her campaign (Dowbor, 2017). Tax exemptions, the high interest rate, and the economic slowdown increased public debt. Despite the reduction in public spending growth in 2015, public debt grew and more money was drained from public investments into rentierism. Still, the narrative of public overspending gained traction in the national media and contributed to the defense of cutting public investments. The effects of the neoliberal ideological offensive reflected by the national press were exacerbated by the worsening objective conditions of the economy and created the conditions for the coup in 2016.

5. FINAL REFLECTIONS

The reduction of inequalities and social and redistributive policies characterized the first two governments of Luiz Inácio Lula da Silva. In this period, economic growth was possible thanks to increased Chinese demand for commodities, credit expansion, and public investment in programs such as PAC, *Bolsa Família and Minha Casa Minha Vida* (Carvalho, 2018). Meanwhile, the increase in the real minimum wage above productivity and the control of inflation were only possible due to the continued appreciation of the Real promoted by the non-neutralization of Dutch disease and the high interest rate (Bresser-Pereira, 2016). Under this arrangement, Lula could reconcile the interests of the financial market, the industrial bourgeoisie and workers. The maintenance of the macroeconomic tripod and, in particular, the high interest rate ensured the profits of investors, while social, redistributive and credit expansion policies, in addition to improving the living conditions of millions of families who were promoted to mass consumption, compensated for the loss of competitiveness of Brazilian industry in the international market resulting from the overvaluation of the exchange rate and the high interest rate.

This model of economic growth based on the conciliation of conflicting interests and the maintenance of the liberal orthodoxy of the macroeconomic tripod proved to be unsustainable in the medium term. By maintaining the overvalued exchange rate and the high interest rate, the model represented a solid obstacle to industry and national development. Initially, the overvalued exchange rate made it impossible for efficient companies to access the international market and from 2011 onwards, after successive increases in the real minimum wage above productivity and the drain from the domestic market to imports, it represented the compression of the Brazilian industry's profit rate, which found itself unable to raise prices in the face of competition from imported products (Oreiro, 2017). On the other hand, the high profitability of the Selic rate, accompanied by the compression of profit and return on investment, deepened the Brazilian economy's financialization process (Bruno, 2011).

The tentative developmental experiment inaugurated by the new macroeconomic matrix of the first Dilma administration proved incapable of containing the ongoing process of deindustrialization and financialization. The exchange rate devaluations and the reduction of interest rates were not enough to resume the investments of the industrial bourgeoisie, which, after more than a decade under the macroeconomic tripod, already had a double condition of industrialists and investors (Bresser-Pereira, 2016; Singer, 2015). In 2013, after the new matrix failed to yield the expected results and under pressure from the financial market -and from industrialists-, the interest rate was raised and economic policy was once again guided by the macroeconomic tripod (Singer, 2015). The tax exemptions granted by Dilma's governments, low GDP growth, and increased Selic caused public indebtedness to proliferate, thus ensuring the maintenance of public debt as the axis of financial accumulation.

Following this logic, Bruno and Paulani (2019) assert that the current institutions associated with the functioning of Brazilian capitalism were constructed to serve the interests of domestic and international creditors. In fact, despite the differences between the FHC, Lula and Dilma governments, the orientation marked by the neoliberal agenda remained practically unchanged.

> This, therefore, explains the enormous financial openness, with lack of control over international capital flows (FHC and Lula), the internationalization of the Brazilian stock market (FHC), tax concessions for shareholders and financial gains of non-residents (FHC), legal changes to provide greater guarantees to creditors of the State (Fiscal Responsibility Law of the FHC government) and the private sector (reform of the Bankruptcy Law during the Lula government), changes in the general social security system (INSS) and the civil servants' regimes (Lula government), and last but not least, the adoption of a macroeconomic recipe aggressively focused on the benefit of financial wealth, based on fiscal austerity and absurdly high real interest rates, generally the highest in the world (FHC and Lula) (Bruno and Paulani, 2019, p. 14).

This arrangement, initiated by Collor, consolidated by Cardoso and sustained throughout the PT governments, led to the final hijacking of the state by financial wealth during Dilma's administrations. In this regime of accumulation financed by public debt, financial intermediaries became increasingly capable of pressuring the government, the main objective of which is now the realization of the interests of the financial market. Furthermore, the new working class that emerged during the PT governments was precarious and disjointed and, as Singer (2018) points out, does not consider itself as working class, easily adhering to the values of the financial elites. Furthermore, part of the industrial bourgeoisie, if in the past had interests at odds with the financial market and was among the losers of the neoliberal period, with the progress of deindustrialization and financialization of the economy, also became investors.

Thus, throughout the Lula and Dilma governments, the maintenance of the neoliberal agenda reflected in the adoption of the macroeconomic tripod made structural changes to the economy impossible and deepened the financialization process underway since the 1990s. The redistributive and social policies that, under Lula's governments, lifted millions of people out of extreme poverty, under Dilma's governments proved unsustainable and insufficient as promoters of sustained growth. Thus, the limits of Brazilian development remained and were deepened by deindustrialization and social and political obstacles to forming a power bloc capable of sustaining deeper reforms in the country's economic and social structure.

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[1] The Collor Plan (1990-1992) consisted of a set of economic reforms aimed at containing inflation through fiscal and financial liberalization. Among the main measures were trade liberalization, privatization, price and wage freezes, and the confiscation for 18 months of deposits in checking and savings accounts exceeding $50,000 cruzados-novos.

[2] Former Minister of Finance in the government of Itamar Franco.

[3] Deindustrialization occurs when there is a fall in the share of industrial employment in a country's total employment (Rowthorn and Ramaswany, 1999). Tregenna (2009) expanded the concept to include the reduction of value added by industry to GDP as another factor indicating deindustrialization. Deindustrialization will not always be accompanied by the reprimarization of the export basket, which can occur as a result of the transfer abroad of labor-intensive manufacturing activities with a lower value added, while the share of products with higher value added and technological grade in the export basket increases (Oreiro and Feijó, 2010; Palma, 2005). However, this is not the case in Latin American economies. In the 1970s, while developed countries demonstrated a reduction in the share of industry in the value added of GDP with a per capita income between US$10 000 and 15 000, Brazil and Argentina went through the same process with an average per capita income of US$5 000 and with an increase in exports of commodities and manufactured products with low value added and/or low technological content (Marconi and Rocha, 2012; Oreiro and Feijó, 2010). As a result, several economists argue that Latin American economies, such as Brazil, Argentina, and Mexico, are experiencing premature deindustrialization (Rodrik, 2016; Oreiro et al., 2020; Palma, 2005).

[4] This hierarchical structure occurs because, while convertible currencies are issued by central countries (United States, United Kingdom, Eurozone), non-convertible currencies are issued by peripheral countries (Oreiro et al., 2020).

[5] During this period, the *Bolsa Família* program became a sort of middle income for deprived families and had its budget multiplied by 13, going from R$570 million to 7.5 billion. On the eve of the 2006 elections, the *Bolsa Família* assisted 11.4 million families (Singer, 2018).

[6] Scandal related to monthly payments to members of congress in exchange for support in the National Chamber. Despite the monthly payments to support the agendas presented by the PT, no structural reforms were proposed during the period.

[7] Heterodox economist who would be in charge of the new macroeconomic matrix during Dilma Rousseff's first government.

[8] In 2016, Henrique Meirelles would become the finance minister of Michel Temer, Dilma's vice president and articulator of the impeachment.

[9] It is the primary monetary policy instrument used by the Central Bank to control inflation. It influences all interest rates in the country, such as interest rates on loans, financing and financial investments.

[10] Fundação Getúlio Vargas Centro de Estudos do Novo Desenvolvimentismo (2022).

[11] World Bank (2023).

[12] The percentages were taken from the Portal da Indústria of the Confederação Nacional de Indústrias (CNI) and elaborated using the RAIS database.

[13] In 2014, private sector debt (companies and households) was 63% of GDP compared to 35% in 2005 (Bresser-Pereira, 2016).