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The transformation of neoliberalism in Brazil from FHC to Lula

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List of Acronyms

CUT: Unique Central of Workers

IBGE: Brazilian Institute of Geography and Statistics

IMF: International Monetary Fund

FHC: Fernando Henrique Cardoso

MDIC: Brazilian Ministry of Industry, Development and Trade

MCT: Ministry of Science and Technology

Abstract

This paper analyses the recent processes of continuity and transformation of neoliberalism in contemporary Brazil from Fernando Henrique Cardoso (1995-2002) to Luis Inacio Lula da Silva (2003-2010) government. The argument is that a complex phenomenon of transformation in neoliberalism was produced from one period to another, with maintenance of the regime of accumulation and a new regime of growth and mode of regulation. Follow the methodology framework of the Regulation Theory approach, the paper explains how these phenomenon was produced, through the analysis of each of the main institutional forms (wage-labour nexus, international insertion in the global economy, competition regime, monetary-fiscal regime and form of state), and how these interactions that come to life in the form of institutions were reflected the transformation process in the relations of the regime of growth and the mode of regulation.

This paper analyses the recent processes of continuity and transformation of neoliberalism in contemporary Brazil from Fernando Henrique Cardoso (1995-2002) to Luis Inacio Lula da Silva (2003-2010) government. The argument is that a complex phenomenon of transformation in neoliberalism was produced from one period to another, with maintenance of the regime of accumulation and a new regime of growth and mode of regulation. Follow the methodology framework of the Regulation Theory approach, the paper explains how these phenomenon was produced, through the analysis of each of the main institutional forms (wage-labour nexus, international insertion in the global economy, competition regime, monetary-fiscal regime and form of state), and how these interactions that come to life in the form of institutions were reflected the transformation process in the relations of the regime of growth and the mode of regulation.

Relevance to Development Studies

This paper is relevant for the field of development studies for it attempts to bring elements for the understanding of a broad and complex process of development, under progress in one of the most important emerging countries in the world. It brings an institutionalist analysis that tries to provide an embedded account of reality and so have a small but meaningful contribution for the debate.

Keywords

[keywords]

Chapter 1
Introduction

The recent dynamics on the Brazilian development processes and the polarization of interpretations that followed it are both the justification and the object of study of this paper. Brazil has risen into the global scene as an emerging power over at least the last six years, together with Russia, India and China, as has been singled out as one of the few individual countries in the world having the potential to increasingly influence the global economy and governance (O'Neill 2001).

Externally, this shifts were manifested not only in a more proactive position in multilateral forums and in an increase of Brazilian participation on global exports, but also on the raise of interest of foreign researchers in studying several aspects of the more recent development process in Brazil. Moreover, Brazil has been strengthening its position in South America, acquiring a new centrality in the world as a regional leadership. This is reflected on the explicit influence over some government regimes of the region, such as in Paraguay, Uruguay and Peru. All these regimes seem to have, in larger or smaller extent, to be trying to adapt the "Brazilian model" to their respective context[1]. And this immediately give rise to the question: "what is the Brazilian model?".

Internally, the debate also got important proportions in the attempt to understand the causes and consequences of the recent socio-economic transformations in Brazil. This is a key concern of development studies analysts when they analyse this case. The most remarkable was that the steady pattern of moderate growth (expect by 2009) went with an improvement on the distribution of income., and demands a more embedded analysis that takes both context and institutions into accord.

The context upon which these changes took place is the contemporary stage of capitalism, characterized by an increasing process, on a global scale, of a neoliberalization process, in which Brazil was embedded. This is the departure point of this paper, tracing back its historical emergence, development and recent transformations.

1.1 Problem and justification

Therefore, this study will seek to provide elements to better understand the recent process of neoliberalization in Brazil. Within this meta-process, it will try to understand the apparently consistent socio-economic development of the last six years which led to a political and academic struggle battle of ideas over this legacy in Brazil. This specific objective drives this research paper towards the theme of the development project(s). **After all, which are the development projects pursued in the country over the last 16 years?**

This work is inserted on this ongoing and fundamental debate, usually marked by the polarization of two opposing interpretations. In the one side, there are those whose diagnostic is prone to read the dynamics happened in the 2003-2010 period as a clear continuity process vis-à-vis the early 1990's. On the other side, there are those whose analysis lean to understand the latter developments as a changing or rupture process.

Therefore, this this research paper aims to provide elements to answer the question of whether the country underwent a process of continuity, change or a hybrid process of continuity and change – in either case, also to explain in why and in which sense. **In other words are we facing the implementation of one single project; a rupture towards a competing development strategy or is it a more complex and contradictory process of change?**

1.2 Hypothesis

Contrary to the main logic of the organization of the debate in antithetical terms, the position in this paper will refuse a simple polarization and will argue that the recent dynamic in Brazil should be understood in a more complex manner, in which the contradictory processes of change and continuity are happening at the same time, constituting one dialectic process. I will try to show how and in which way this process happened using an institutionalist approach with the theoretical and methodological tools provided by the Regulation Theory approach (see chapter 3).

1.3 Methods

In order to accomplish the research objectives and address objectively the problem, this research will rely on a set of secondary data which will be analysed through the frame of the regulation theory.

The quantitative data will mainly concern aggregate figures, and will be obtained mostly from official governmental sources, from universities, auditing firms and also the main newspapers.

The qualitative data will be taken from laws, policy papers, reports from official websites and an extensive literature review both in the field of the institutional forms analysed and on the regulation theory scholarship.

1.4 Scope and Limitations

This analysis will focus on one geographical location and on a particular historical context that will go from 1995 to 2010. Because of the specificities of the historical institutionalist approach I use (Regulation Theory), previous period were briefly analysed for the need of context, before an in-depth analysis on the period I decided to focus. This paper, however, has a series of limitations.

The attempt to tackle the big topics of development to encompass the largest number of aspects (processes, institutions) as possible and analyse it with greatest depth possible is an impossible venture, even if one disregards the time and space constrains of this research paper. But it is also a necessary attempt to provide a small contribution to the debate filled with rich specialized, and yet partial accounts, in the development studies field.

Having chosen to base my methods on the analysis of secondary data, my analysis depended on the consistency of data availability for the whole (or most) of the period concerned. In some cases, data was only was simply not existent or available only scarcely, such as in the case of hierarchy of skills or nature of skills, which led me to narrow my scope. In others, more recent sometimes was not available yet.

Those limitations, however, do not invalid the general processes studied, but, rather, indicate that further studies can update the analysis bringing some more new insights about current processes and capturing other dynamics.

Chapter 2
Context and contestation

Over the last six years, Brazil has showed consistent social and economic improvements and has been regarded regionally as a "model" to be followed. This changes coincide with the rise to the presidency of Lula in 2002. The leader of the PT would be re-elected in 2006 and would be decisive to elect his successor, Dilma Rousseff.

During the 2003-2010 period, the Brazilian economy grew at an average rate of 4% a year. This was almost twice as fast as the previous period, which was characterized by a highly volatile GDP growth rate (Amitrano 2010). At the same time, the share of poor population fell by half vis-à-vis 2002, hitting 13,5% of the total – the lowest rate in 20 years (FGV). The middle-class proportion in the total population gradually raise since 2004, became the absolute majority in Brazil in 2010 (Ibidem).

Another indicator of social-economic improvement was the Gini index for income inequality. The Brazil has been for decades one of the most unequal in the world, since both the periods of high growth of the 1950-1980 and the periods of stagnation or low growth (1980-1999) were characterized by a concentration of wealth. Furthermore, unemployment decreased and, after 2003, the country enjoyed a period of relative macroeconomic stability, with inflation under control.

The question of what was being done throughout the period to produce such positive effects generated intense debates, polarizing those claiming that the Lula government was some kind of a continuity of the previous regime,. and those highlighting that the reasons for the good results very different from the previous period was because a change was produced.

The dominant set of explanations of the recent development process in Brazil, advanced by corporate media and some orthodox economists, stresses the role of the measures set in place by FHC – who would have laid down the basic macroeconomic policies that, according to this view, have been simply copied and continued by Lula (who would have, thus, collected the fruits cropped by the past president), measures also qualified by this field as "blessed inheritance"[2], and, thus, providing Lula with a better starting point than FHC's. In addition, this viewpoint claims that there has been an overall favourable international environment, between 2003 and 2010, comparing to the precedent period.

An example of the mainstream strand is present in Giambiaggi's researches. The economist concludes that between 1991 and 2008 there were no significant inflections (Giambiaggi 2008). "It is important that the reform agenda, defended in the beginning of Lula's government in official document and by several participants of the debate, is retaken to improve the quality of the adjustment implemented over the last 10 years" (Ibidem, p. 574). Costa (2009) also sees a continuity in relation to the fiscal policy, but for him, these restriction was detrimental to establish a universal welfare state during both terms.

In the public debate in the newspapers was just as relevant and often more politicized. In one of this reports, the director of the Western Hemisphere of the International Monetary Found at the time (2006), Anoop Singh, said that Lula was a continuity of FHC, since the former maintained the same macroeconomic policy (BBC Brasil apud Folha de São Paulo, 27/06/2006). The underlying argument is that, with the continuity of the "right macroeconomics", social welfare would "automatically" follow. A similar argument, but without the "sequencing" of the orthodoxy, was made by Tussie (2009).

Some of the "critical" argument in Brazil, mostly provided by orthodox Marxists intellectuals, also provide a similar diagnostic. The difference are two: first, they make a binary class analysis, and see the state under Lula as an instrument of the capitalist class. The consequence, and second difference, is that the dynamic that happened between 2003 and 2010, because the economic policy was maintained to satisfy the dominant class, a deleterious scenario would be produced, especially on the long run (examples of account similar to this descriptions are found in Marques & Mendes 2006; Freitas 2007, Mollo & Saad-Filho 2006), Novelli 2010; Mikhilova et al 2008):

In the regulationist field, Bruno (2008; 2010) depicts the post-1994 period as a accumulation process in which the financial sector had the primacy and subordinated the state's finance to its logic, in line with the mode of regulation of that era.

On the other side of the continuity argument tend to focus both in the outcomes (i.e. the disparities in social-economic achievements) and the process and on the rejection of the "blessed inheritance" argument, since the end of FHC mandate was marked by deep macroeconomic instability.

This position was present more in intellectual circles closed to the government or amongst some neo-Keynesian economists. According to this view, Brazil under Lula would be a paradigmatic case of the implementation of the **new-developmentalist** or keynesian-like state (Mercadante 2010; Pochman 2010; Santos 2011). The argument here is that on his first years, Lula was constrained by the "cursed inheritance", and had to be even more restrictive than FHC, but after the economy recovered, an unfettered change process was produced.

One argument in favour of a change relates to the new approach by the state regarding innovation and technological change, manifested in the industrial policies launched by Lula in 2003 and in 2008 (Arbix 2010; Arbix, Salerno & De Negri 2005; Arbix and De Negri 2005). Jardim (2009) suggested also that Lula has brought a reframing on the state-market relations.

This vision, although circumscribed to few intellectuals and a small segment of media, cannot be accepted either without a critical scrutiny, as there are solid evidences of long-term consistencies throughout the period (such as those highlighted by the opposing field) that have to be considered, and which point out to important continuities.

This debate is much more complex and broader than this and cannot be exhausted in this paper. On the following sections, I will argue that at face value, most of the arguments presented by the both sides do have a point, but some of them are too partial, not explaining the big institutional picture. Others are too mechanistic or desembedded, and see economy imposing itself over social-political dynamics. In this paper, I try to argue in favour of a contradictory process of continuity and change, trying to provide an embedded and institutionalist approach.

Chapter 3
The Historical Institutional Analysis Methodologies

In order to narrow down the strands that should be considered in this research paper, the first criterion is the selection of approaches that deals with the theme of continuity and change in a **historical perspective**, as it is clear that the interest of this research is about long term development projects and strategies – which can only be evaluated with theoretical framework that provides tools to analyse processes over time.

Secondly, the selected theoretical framework should be capable, at the same time, of dealing with the underlying political battle of ideas (the nature of the continuity and change) and the material processes (the formation of the continuity and change). Hence, it should be able to take into account the interdependent feature of the two components, and also be capable to explain the reality in all its complexity of manifestations.

The third criterion is to choose a theoretical approach which ontologically and epistemologically understand economy as an instituted process, in other words, an approach that sees economy embedded in other fundamental institutions (Polanyi, 1965), such as politics, culture, history and many other social aspects. This view is intellectually superior to the one that sees economy as a dominant disembedded "entity" that subordinates all the others, and thus fails to acknowledge the role played by power relations and culture, therefore delivering a flawed analysis that is unable to explain complex phenomena.

There are only few perspectives that fulfil the set requirements, and the one which seems more adequate amongst them for this particular research is the **Régulation Theory** approach.

A key advantage of this approach is that it allows a comprehensive methodology structure for the research to undergo his work and to know to which aspects to examine. At the same time, it provides some the flexibility for researchers to look for different aspects on the same framework – and, thus, leading to a diversity of results when explaining contradictory processes of continuity or change of social relations.

Contrary to historical neo-insitutionalists, that deal with contingent elements (changes as critical junctures) and persistence and stability of institutions (continuity as path dependence) (Pierson 2000) in frame of analysis, the regulationist approach provides a better account for this paper by bringing these contradictory processes together and explaining both using an integrated dialectic ontology. Also, the Regulation Theory approach has a more refined understanding of crisis (it distinguish between five types; (Boyer and Saillard 2002)), and result in a better analysis of the different levels of changes.

The Regulation Theory conceptual and methodological frame

In short, the Regulation Theory approach aims to explain in which ways do capitalist economies, despite of its constitutive contradictions and conflicts, are able to keep, on the long run, a relatively stable accumulation pattern (Ibidem), but also is a "school of thought that has tried to describe how institutional forms of capitalism have changed over time in the diversity of architectures that can be observed at any one point in time" (Boyer 2005 p. 510).

Therefore, in order to undergo an analysis, the regulationist approach uses three main concepts that define social relations of production: the regime of accumulation; the mode of regulation; and the institutional forms and mode of regulation. These concepts will be defined in-depth in the introduction of chapter 5. In this chapter, the concepts will be explained only briefly.

The mode of regulation consists, in short, on the set of procedures and individual and collective behaviours which reproduce social relations and provide the orientation guidance for the accumulation regime (Boyer and Saillard, 2002), legitimizing and stabilizing the social relations of production.

The regime of accumulation consists on the set of social-economic structure that can be observed over the long term as providing the necessary means for the process of accumulation. The elements that compose these social-economic patterns, according to this view, can be summarized as being related to capital creation, distribution and circulation (Ibidem).

For a medium term analysis of this paper, the concept of **growth regimes** is fundamental to make the analysis operational, so that the micro-regularities and transformations within the same system can be understood. The growth regime is the manifestation, in concrete terms, of the regime of accumulation **in which it is embedded** – the same regime of accumulation can have a variety of regimes of growth.

Neoliberalism, in this perspective, is defined in this paper as a particular stage in the capitalism mode of production that emerged in the world with in the 1970, but demonstrating macro-regularities regarding the regime of accumulation and mode of regulation.

In its turn, the interaction of the materiality of the accumulation regime and the ideological of the mode of regulation is crystallized in form of institutional forms, which *grosso modo* are understood as the codification of basic social relationships. According to this literature, the fundamental relationships are five: monetary and financial regime, wage-labour nexus, the forms of competition, the form of insertion into the international relations and the nature of the state.

Each institutional form (chapter 4) will a deserve section of its own, in which I will explain them in detail, and that will precede the analysis of the growth regimes, regime of accumulation and mode of regulation.

A key concept for this study is the one of **institutional hierarchy**, which entails the "dominance of one institutional form over another, owing to the nature of political coalitions at the heart of institutionalised compromises, on which each regime is based" (Boyer and Saillard, 2002, pp. 331). This concept further implies that this relation of dominance is determined within particular power relations that enable actors to shift this hierarchical frame beyond their direct sphere of influence.

Another is the **principles of regulation**, defined as the ideas and values **embedded in the mode of regulation** and which are expressed in each of the fundamental institutions form of in struggle, laws and policies. These values and ideas help to stabilize the regime of growth.

Chapter 4
Institutional forms

4.1 Elements of the wage-labour nexus in Brazil (1995-2010)

The wage-labour nexus is considered by the regulation school as one of the fundamental institutions, defined by its complementarity in relation to the other institutions, and therefore presents particular configurations according to its geographical and historical location (Boyer 2009).

The wage-labour nexus is understood, here, as a dynamic process of struggle, restrained and enabled by the broader institutional and structural configuration, and historically constructed. It relates to the way labour is organized, to its lifestyle and to the way it reproduces itself.

This approach also suggests some components to be analysed in order to infer the main characteristics of this institutional form: a) the type of means of production; b) the way employees are attracted and maintained in the company; c) the determinants (direct and indirect) of wage income; e) the workers lifestyle, or, more precisely, the level of decommodification of his/her life[3] (Ibidem).

For the concerns, specificity and limitations of data availability, time and space of this research, however, I will focus on the broad determinants of wage, looking in its relation to mechanisms of co-ordination with to the growth regime and interactions with the other fundamental institutional form in terms of hierarchy and complementarity.

Therefore, apart from this introduction, this section will be divided into four sections. First, I will set the general regulatory framework of labour relations in Brazil. In the next two parts I will discuss the main determinants of wage and the mechanisms of co-ordination during FHC's term (1995-2002) and during Lula's administration (2003-2010), before I set the final remarks.

Regulatory framework of wage-labour in Brazil

The current labour laws in Brazil have a relatively long history, attached to the authoritarian-corporatist state established in the 1930's by Getulio Vargas (1930-1945; 1951-1954). He introduced many labour rights, which were after codified in a broader legal frame of the Labour Laws Compendium (CLT), established in 1943, still under an authoritarian regime.

The CLT determined the minimum rules for labour relations, such as work load, minimum wage, annual vacations, and all the basic labour

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3 This aspect will be dealt in section 4.5 (forms of state) on the frame of the Brazilian welfare state debate.

protections, social rights and employers obligation vis-à-vis them – based on their work categories and position on the market, in a typical "corporatist-type" of welfare state regime (Esping-Andersen 1990), incorporating gradually all sector of labour, such as rural workers. Under this institutional hierarchy, labour had a much favourable position than capital, but the state was the broker of the relation, effectively co-opting and keeping control over the labour movement (Sandoval 2007).

Over its almost 70 years of existence, the compendium have suffered several modifications, but it still remains the basic institutional and legal framework that regulate (formal) labour relations, and reflected the mode of regulation of each era.

Wage-labour nexus under FHC

In the beginning of the 1980's the state-led regime of growth and mode of regulation demonstrated signs of exhaustion. Gradually the idea that deep structural reforms should be done for the country's economy to recover was gaining strength. The rampant unemployment and slow economic performance of the 1980's paved the way for a mode of regulation that advocated re-regulation on the labour market in order to foster a more dynamic economy. These reforms should be translated into institutions that "flexibilize" capital-labour relations, withdrawing labour costs (and protection) imposed by the CLT and by the 1988 Constitution.

The rise of this regime of accumulation represented a significant worsening of the labour position in the capital-labour relations, with increase of unemployment and "informal" or precarious work (Pochmann 2009).

During the FHC government (1995-2002), there has been a series of attempts to "flexibilize" the labour laws established in the CLT. One of them was the approval of the law 9.601 of 1998, creating the predetermined term contract.

At the same time, the 1990's was marked by a sharp increase of informality, which was a structural aspect of the late industrial development of the country and its condition as a "subordinated and dependent capitalist country" (Malaguti 2001), but only back then this character was assuming significant proportions.

Unemployment

The emergence of neoliberalism in the 1990's also came together with a clear weakening on labour position, reflected in the work marked by a steep and steady rise of unemployment. The opened unemployment in Brazil almost hit double digits, when it increased steadily from 6.1% in 1995 to 9.65% in 2000 (IBGE). In the metropolitan region of São Paulo, the most dynamic economic centre of Brazil, the total unemployment (sum of opened and hidden unemployment) peaked 19.28% in 1999 and averaged 16.9% over FHC's term (Dieese).

The manufacturing sector was severely hit by lay-offs. In the 1990's, the sector has cut 1% of its workforce every year, in average, compared to the annual average increase of 3.1% on the previous decade (Alves 2004). The unemployment was, thus, a structural characteristic of this new regime of growth, guided by a competitive type of *régulation*.

Fall in wages

The advent of the Real Plan and the resulting fall on inflation rates, the country was virtually free from the "inflationary tax", which strikes mainly the poor. Moreover the implementation of the new strong currency immediately was translated into a temporary increase on the average wages.

However, the possible positive effects of such aggregate achievement were hindered by the competitive logic that has produced increasing inequality of wages (Vernengo 2004). The income disparity has remained at real high numbers, as the Gini coefficient virtually stagnated from 1994 to 2001 at 0.60. The increase on average wage, together with the maintenance of high inequality meant that the elite workers and middle-class professionals were the ones most benefited by this institutional configuration.

Rise of informality and precarious outsourcing

The rise of unemployment and decrease of wages had a tight relationship with the rise of unregistered work (informality), consequence of the competitive mode of regulation.

Throughout the 1990's and early 2000's, the informality levels remained consistently high, and represented a rupture with the previous trend of increase of formal jobs (Noronha 2009), on average, around 55% of the total labour force.

The most dynamic regions of the country, the metropolitan areas, were particularly hit. The ratio of informal jobs grew almost ten points from 1991 to 2001, from 40.9% to 50% of the work-force (IBGE *apud* Ramos 2002).

The precarious work, thus, was the reflection of a particular regime of growth that had the "flexibility" as a key principle of regulation to orientate capital-labour relations, and stabilize the regime of growth. Under the neoliberal hegemony, the workers would gradually stop perceiving flexibilization and competitiveness as a detrimental, and hence, would achieve the legitimacy and stability needed for the reproduction of social relations. In short, flexibility and competitiveness would define the new institutional nexus of the regime of growth.

Wage bargaining and labour movement under FHC

As highlighted above, the largest salaries were the ones that pulled the wages up at the end of the 1990's. The struggle of labour over better benefits and wages was fragmented, and many of the agreements in collective conventions were flexibilized (Cappa 2000), which pushed the labour movement to further divide the class.

The movement leadership would be further divided into two into opposite groups. In the one hand, there were the "pragmatic unions", who adopted a subordinated stand to the capitalist class and acceptance to the firm-level negociations. On the other side, there were the "resistance unions", which adopted a defensive strategy of action, but critical to neoliberalism.

Another expression of this shift in labour union struggle from meso-level to firm-level was the steep fall on number of workers participating on workers per strike since 1993.

As density of number of strikes declined, mostly led by CUT (the largest union federation, attached to the PT) at the second half of the 1990's, in a context of constant and objective fear of job loss and "flexibilization" of work, the struggle of labour also changed its nature, and shifted from an "pro-active" to a "defensive" stance.

This retrenchment of unions directly affected the wage bargaining relations. From 1996 to 2002, on average only 42% of the collective bargaining measured by the Diccse registered adjustments above the official inflation index. In 2002, only 25.8% of the collective bargaining resulted in real wage increase.

Wage-labour nexus under Lula

Lula came into power as the neoliberal regime of accumulation and mode of regulation collapsed. He came into power with a strong popular support from several social movements, in especial the working class, through its unions confederations, the CUT, and crystallized the emergence of a new mode of regulation.

The transition period (2001-2003) was a turbulent time for the Brazilian economy, still very much susceptible to foreign (and national) short-money market volatility, with impact on the country's economic performance. .

Over the next seven years, 2004-2010, however it was clear that the country has been through some important institutional changes that have affected the wage labour nexus in clear favour of the labour over capital. This is shown in the reversal of the trend in all structural indicators, as a new and more co-ordinated mode of regulation was starting to be put in place, focusing on reduction of unemployment, increase of formal (registered) jobs and strengthening of labour position on wage negotiations (Cornia 2010).

Rise of employment

The opened unemployment rate has fallen dramatically and steadily after the transition period (except in 2009). The stock of formal jobs created during the 1990's increased by 2.45% a year, exactly at the same rate as the growth of the "economically active population" (sum of employed and unemployed people)   5.5% a year, in average -

In the most dynamic centres of Brazilian economy, the industrial unemployment, that reached an average of 5.5% in 2002, fell more than 40% until 2010, in an average of 3.2%. This is a key variable, as the industrial jobs are those which have better wages in average and usually have better quality jobs in terms of duration and benefits, than those on the service and agriculture.

Recovery of wages

The Lula years, by no means, represented a "revolution" in terms of wage increases. However, in entailed an inversion on the downward trend of wage value of the late 1990's, and slow increases on average wages. To be sure, the wages tended to go further down on his first year of mandate in the more industrialized centres, but from 2004 onwards, this trend was timidly, but consistently, reversed until 2010.

Probably the most significant increase of wages happened in the lower strata of the working class, the ones who earn their income at the minimum wage. The appreciation of the real minimum wage under Lula was very significant. By 2010, the real minimum wage has achieved its highest value since 1965, reverting of depreciation started in 1982. The real annual average rise between 2003 and 2010 was 5.9% a year and 57.27% in total. This represent a rate almost twice as big as during FHC mandate

Reduction on precarious jobs

Another important trait of Lula government relates to the trend of flexibilization/regulation of labour market. This is aspects holds a deep relation of complementarity with other fundamental institutional forms.

From 2003 onwards there could be observed a trend reversal on trend that started on the 1990's, when the proportion of registered jobs increased at a rate of 1,7% a year (13,8% total) from 2003 to 2010. After a slow, but consistent increase, registered jobs became in 2010 the absolute majority of the total.

A more flexible labour force is functional to a regime of growth underpinned by a neoliberal logic of capital-labour relations and which tend to reinforce market mechanisms of regulation on the labour sector. On the other hand, an increase in registered jobs is institutionally complementary to a regime of growth where the state is reinforced in the general institutional hierarchy.

Reconfiguration wage bargaining and labour movement

With the reconfiguration of the mode of regulation and the transformations in the form of state, wage-labour configuration of struggle also shifted, towards a neo-corporatist type of régulation.

In this context, the labour union strategy, combative on the 1980's and defensive/pragmatic on the 1990's, has shifted to a "pro-positive" one, started to hold larger stakes, particularly concerning the administration of workers funds (pensions and benefits), and adhere in a very large extent to this concertation logic[4].

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4 Another expression of this new principle of regulation was materialized in the creation of a new governance institution, the Economic and Social Development Council, which will be discussed in the section 4.5 (forms of state)

While in 2003 only 41.8% of the negotiation units were able to obtain wage readjustments above or equal to inflation, this ratio doubled one year after and remained over 88% for the whole period until 2010.

Conclusion

One can argue that the improvements of the main wage determinants were a direct cause of the macroeconomic stabilization, which would have produced welfare for an increasing number of workers. But this argument would fail to provide an accurate account of the dynamics complexity by disregarding the role of agents in their struggle and strategies, but specially, neglects the transformations of the overarching mode of regulation that was providing a new guidance and stabilization to the new regime of growth.

4.2 Elements of the Brazilian International Insertion (1995-2010)

The rise of neoliberalism in Brazil meant the rise of a new international regime endowed with a set of principles and rules materialized into a set of institutions (Vidal 2002). The growth and improvement of international trade and financial networks underpinning this process has urged the country to undergo deep institutional changes to sustain its new regimes of growth, effectively shifting Brazil's institutional hierarchy.

In this sense, it also represented the establishment of a new international insertion frame, in other words, a new "set of rules that organise the nation state's relationship with the rest of the world, in terms of both commodity exchanges and the localisation of production, via direct investment or through financing of capital inflows and external deficits" (Boyer 1986). These political economical projects of international insertion not only are a reflex of states or market agents determination, but are, rather, a result of the complex interaction between both of them and arise from political choices made during critical periods (Boyer and Saillard 2002, p. 39).

In order to discuss the matter of the Brazilian insertion into the global economy, this section will be divided into three parts, apart from this introduction. First I will discuss the neoliberal international insertion in Brazil under FHC. In the second part, I will talk about the transformation into a new configuration of the international insertion, and its basis and contradictions.

Source: MDIC

The neoliberal international insertion

The new international regime was established under the promise of modernization and boost of the world economy through the quantitative and qualitative increase of flows of capital and good. Brazil's insertion would be based on the acceptance of this logic and be underpinned by a deep restructuring of the regime of accumulation, with deep reflexes on the wage-labour nexus and competition regime.

This new international insertion model started in fact during Fernando Collor administration (1990-1992). Collor started an abrupt trade liberalization policy, dismantling the protection the industry had on the previous era and removed the non-tariff barriers and reducing progressively the import taxes (Alves 2004).

The new hegemonic view orientating this process suggested the growing integration of the world economy would bring more advantages than losses, as positive flux of investment would be capable to engender competitive restructuring with strong productivity both in capital and labor (Arbix 2002). Transnational corporations were thereafter seen as allied on the process of achieving competitiveness and having a better insertion on the international economy (Clark, 1997).

The local industries that could not compete in a more integrated trade system were crushed. As a result, the ratio of the manufacturing industry over

GDP fell from 32.39%, in 1989, to 26.54% in 1990[5]. Internationalization and competitiveness were the new principles of regulation that orientated the main sectoral policies.

Source: Ipeadata

These values could be inferred by the analysis of public policies that attempt to implement international standards of productivity and competitiveness, such as those present on the Industrial Competitiveness Programme (PCI) and the Brazilian Programme for Quality and Productivity (PBQP) (Alves 2004).

This new agenda for the Brazilian international insertion was consolidated with the election of the next president, Fernando Henrique Cardoso (FHC, 1995-2002), who undertook a broader set of neoliberal policies, following the successful inflation control. These policies involved important privatizations, further deepening financial and trade liberalization, and elevation of the real interest rates. Foreign direct investment (FDI) soared[6].

The degree of openness of the economy[7] from 1990 to 1999 was about 13.5% and the Brazilian participation on global exports reached merely 0.96%[8]. This means, almost paradoxically, that the "liberal" stage of Brazilian capitalism produced an economy 20% less open compared to the previous

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5 Ipeadata

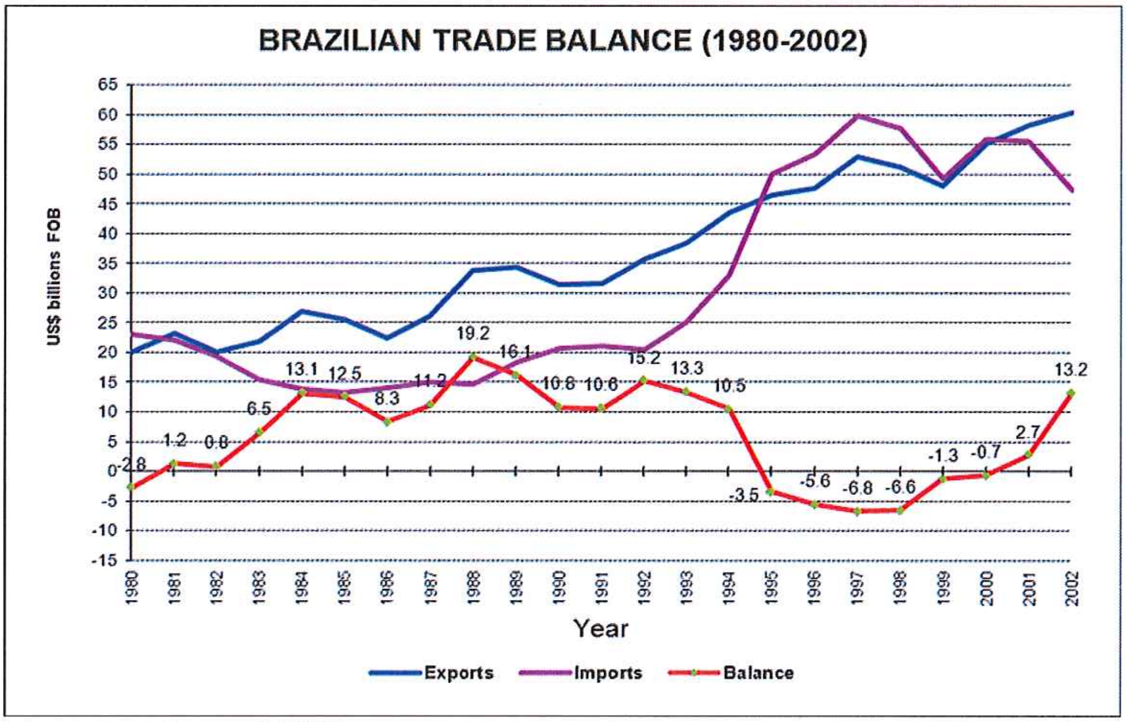
6 Ipeadata

7 Ratio of the sum of imports and exports divided by the GDP.

8 MDIC

decade[9]. The apparent paradox is resolved once we understand the dominant mode of regulation was based on the acceptance of the globalization of competitive advantage, in which state involvement in the economy was seen as detrimental, and the respect of market dynamics should orientate the better allocation of resources to stabilize the regime of growth.

The Real was successful to beat inflation, but its overvalued exchange rate has caused some detrimental consequences for the country's economy. For a start, the high value of the currency encouraged a dramatic increase of imports, furthering disorganizing the national productive structure, leading to the closing of companies, bankruptcies, mergers and acquisitions and the consequent rise on unemployment[10]. In 1995, only one year after the implementation of the Real, imports increased by 51%, and the trade balance inverted the positive trend. The country would run trade deficits repeatedly from 1995 to 2000.



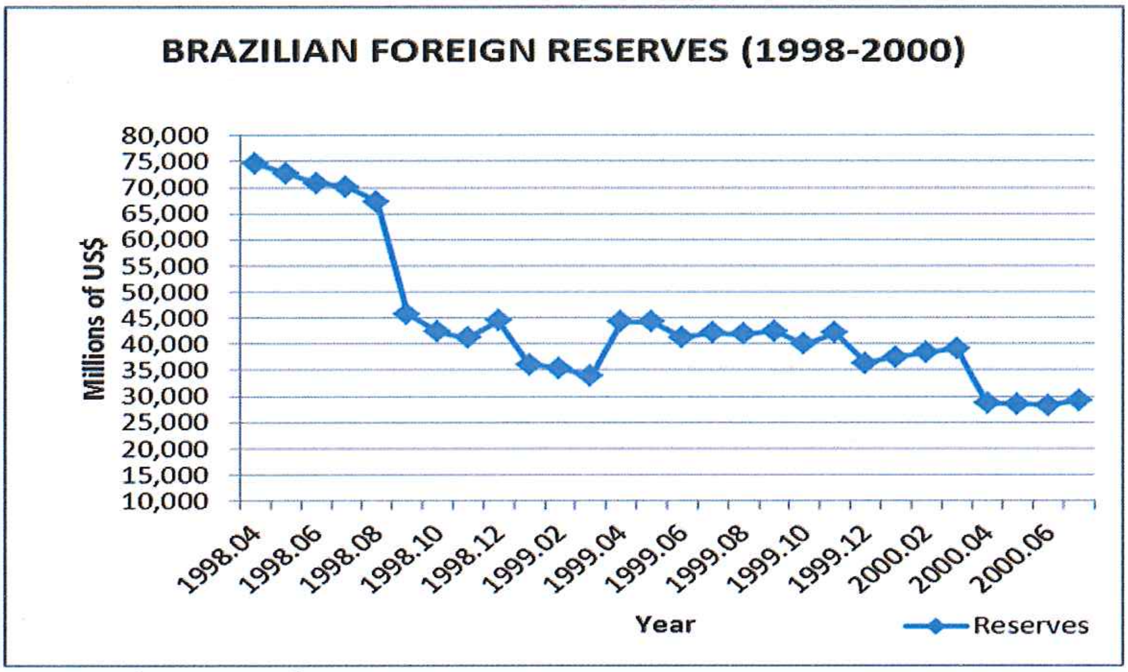
Source: MDIC

To correct the imbalances caused by a fixed (and overvalued) exchange rate, the country had to further encourage the capital flows, increasing interest rates and undergoing a restrictive fiscal policy. This volatile capital dependency

9 Ibidem

10 More on unemployment on the wage-labour nexus section

frame further contributed to a significant increase of the country's external vulnerability and to a subordinated international insertion, which led to a major crisis in 1999.



Source: Ipeadata

Brazilian international insertion under Lula (2003-2010)

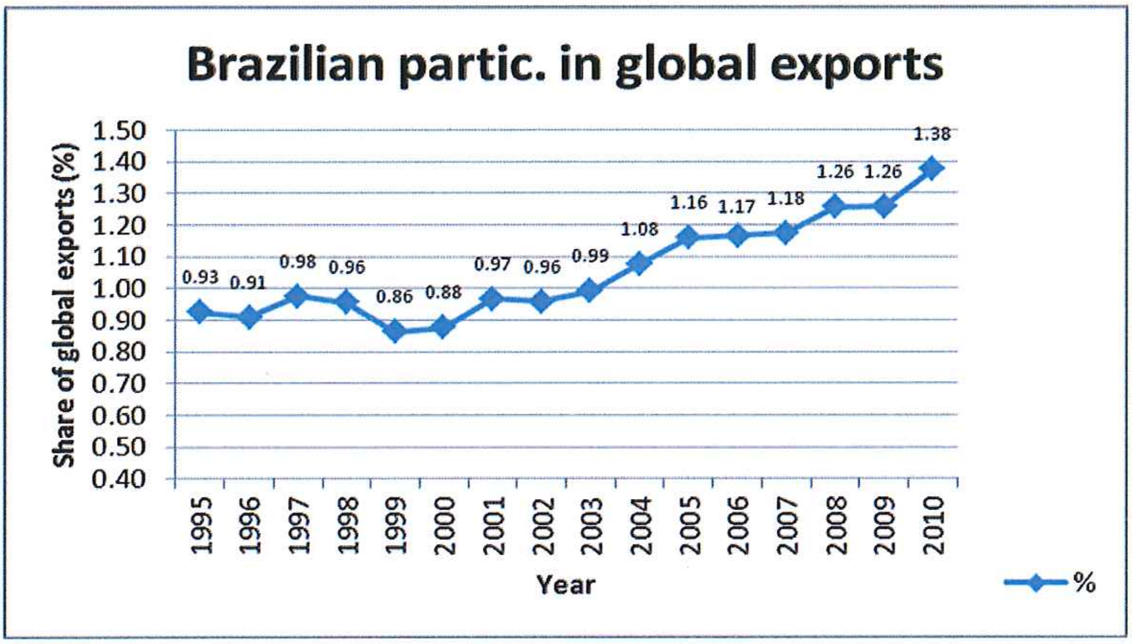
During Lula's mandate, the state has gained a new relevance for the construction of a new model of the Brazilian international insertion. In this sense, it marked a strong opposition to the previous neoliberal mode of regulation that predominated from 1990 to 2002. The strategy of international insertion was based on two goals: increase export (as opposed to inflow of capital flows) and the raise their degree of sophistication.

These goals would be achieved through the implementation of a new industrial policy, the PITCE, from 2003, based on competitiveness and innovation principles, and the PDP, launched in 2008.

Export promotion

The increase on the actual volume of exports is in the heart of this reconfiguration of international insertion. This principle would play an important complementary role in the performance of other institutions, as it mean the reduction of dependency on volatile capital flows, enabling the state to shift to a better position in the Brazilian institutional architecture. At the same time, to achieve this goal, the state was brought to help sectors of the

Brazilian economy to develop their capacity to increase competitive advantages in the global economy.



Source: MDIC

Indeed, after Lula's administration (2003-2010), Brazilian exports have increased significantly. Brazilian exports grew 234%, between 2002 and 2010, reversing the trade deficits. The new orientation export-orientated international insertion is expressed on the increase on the degree of openness (exports/GDP), that rose from 15,9 in the 1995-2002 period to 21 in the 2003-2010 period (peaking 22,7 in 2008, before the global financial crisis hit Brazil)[11]. As a result, Brazilian average share in world exports from 2003 to 2010 grew 27%, from 0.96% to 1.38%[12].

This important raise in exports have three reasons: first, is the increase of the productivity of export-oriented industries and agricultural ventures; second, the programmes of credit grants, co-ordinated by the industrial policies and realized by public banks (BNDES and Banco do Brasil) for these ventures; and lastly, and not less important, the rise of the global demand for commodities.

Half empty, half full: the two facets of the structure Brazilian export bill

Although the volume and revenue variation of a country's exports is a relevant variable, the analysis of a country's international insertion should not

11 MDIC
12 Ibidem

stop there. It is important to see the structure of its export bill, whether a country is selling beans or microprocessors.

The Brazilian export bill seems to have been shifting steadily in favour of commodity sales. In 1996, industrialized goods represented over 83.6% of the total exports revenue. The ratio has been falling slowly since then, in favour of basic commodities. During Lula's second term, however, this trend had at a much faster rate, declining by five points annually, in average, and ended 2010 registering 63.6%[13].

This fact has led many analysts to interpret this as a reconfiguration of the Brazilian regime of accumulation marked by a deindustrialization process (Baumann 2010).

However, if we look closer to the export bill structure and pattern we will see that there was a consistent increase in absolute terms of industrial goods revenues, not coincidently since 2003, until 2010, at average annual rates of 14,6%, or four times faster than the rate on the 1996-2002 period. The annual average revenue of the high technology intensity goods in the 2003-2010 doubled in comparison to the 1996-2002 period.

Hence, it was not the "industry's car" that was moving backwards, but the "commodity train" who were speeding high. This significant acceleration of the industrial exports was neglected in several analyses in favour of the even more relevant phenomenon, the unprecedented commodities boom.

A protraction on this trend, however, could further generate institutional imbalance among fractions of capital (agrarian and industrial) when it comes down to free trade and competition for subsidised credit. An eventual progress in this regard in favour of the commodity sector might mean the deepening of a "Chilean" regime of international insertion, based on primary exports, in line with the prescriptions of the "comparative advantage" also advocated by the neoliberalism of the 1990's (Cervo 2010).

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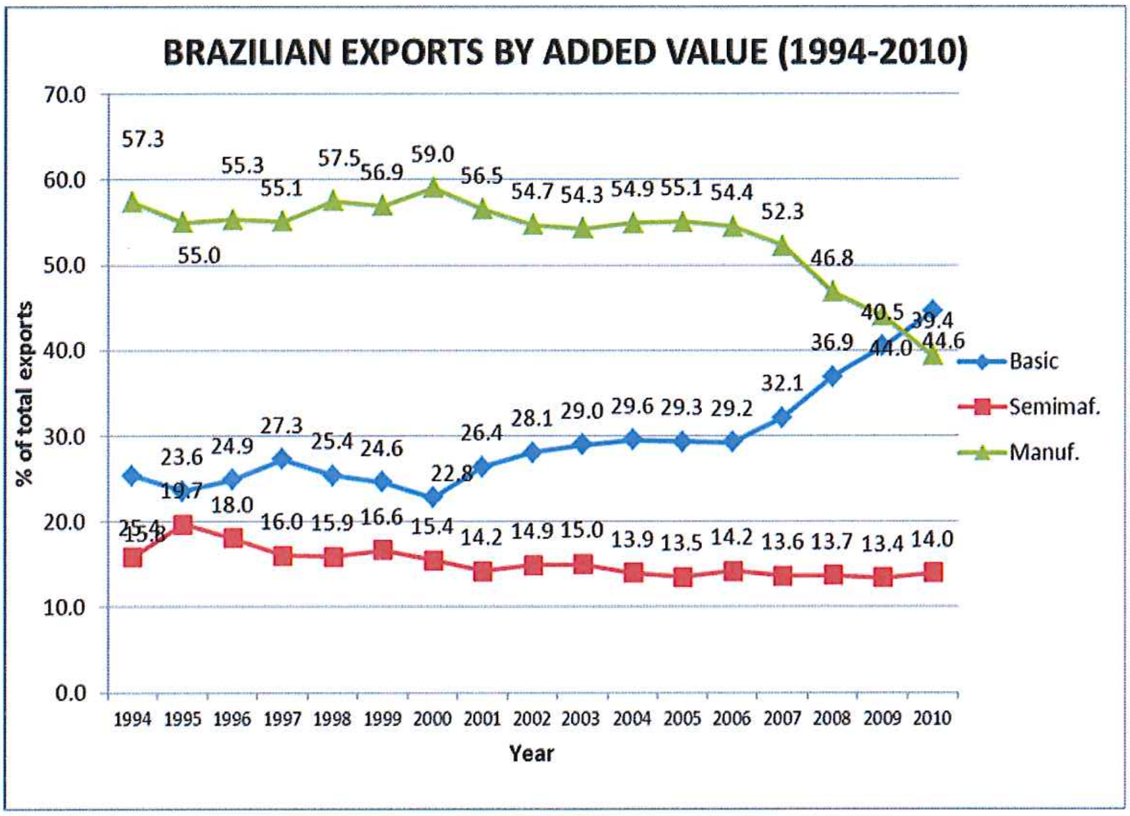
13 MDIC



Source: MDIC

Lula's Industrial Policy and International Insertion

In order to rearrange the basis of the Brazilian insertion in the global economy underpinned by a qualitative improvement of its export bill profile with added-value increase, an active state industrial policy was perceived by Lula government to be a necessary orientation. Based on the principles of regulation of strategic insertion, innovation, national competitiveness, the PITCE should have orientated a large set of programmes in line with these guiding values.

According to this policy, based on principles of innovation, the state should actively design policies (concession of credit, tax-breaks etc.) to encourage exports and to engender a more beneficial type of insertion of Brazilian globally.

Conclusion

The interpretation that Lula's international insertion presented the same dynamics assumes a coherent and static process, in which the market trends pushed in favour of the boost of the primary goods. In this regard, the state under Lula would be used only to assure the "natural" competitive advantage in the sector. Therefore, the state would be relegated to a subordinated position as a "partner", helping these sectors to consolidate their position on the global markets.

But his view neglects the contradictions internal contradictions of the new international insertion, to which the value of innovation is fundamental, but is, at the same time dependent of the traditional and competitive sectors to ensure the stability that will produce the change. These interactions are in progress, and take time to be perceptible. But it is already possible to identify a tendency to increase the role of the state in this dynamics, especially when we look at the policies and effective practices, which express a transformation of the mode of regulation and on the regime of growth.

4.3 Elements of the Brazilian Competition Regime (1995-2010)

Introduction

The institutional environment that orientates the way in which centres of accumulation articulate themselves in the production stage and on the market is both the reflection and the constitution of a particular regime of accumulation. It is through these relationships of production that conditions will set for the outcome of how production should be done and by whom. In a capitalist mode of production, therefore, the competition regime is a fundamental institutional form. On the macroeconomic level, the competition regimes relates to the degree of economic openness of a country (Kupfer 2005).

The most common categories worked with is the trend of economy towards the ideal types of competition oligopolistic, in which restricted group of large firms controls the centres of production; monopolistic in which one single company controls a specific market and is able to determine prices, quantity and quality of the goods prior to market relations; and competitive, where the logic of the market relations is dominant on the action of the controllers of centres of accumulation, that fix the determinants of the good effect market confrontation (Boyer 1986, *apud* Boyer 2002).

Although the regulationist literature (Aglitetta *et al.* 1980; Hollard 2002) indicates some structural indicators as a starting point of the research, such as productivity increase and wage-price relations, in this section I will focus on particular dynamics and processes[14], concerning the interrelations between competition and international insertion on the global economy, dealing with some of the issues treated by the competition policy literature, such as the openness of the economy and the general norms and institutions that regulate the competition regime.

This section, for the case of Brazil, does not intend to debate the Brazilian competition regimes exhaustively, and, for matters of relevance, data

14 Some of these structural indicators will be discussed on the chapter on chapter 5, on regimes of growth and regimes of accumulation.

availability and time and space constrains, not all aspects suggested in the regulationist literature will be found here. I will begin by presenting the regulatory framework of Brazilian competition regime. Next I will briefly set the different stages of the competition, and the focus on the institutional analysis of three major trends that marked the last 20 years of the competition regime in the country: trade liberalization, privatization and oligopolization.

The Brazilian competition regulatory framework

The basic rule that orientates the way the centres of accumulation relates to each other in Brazil is provided by the law 8.884 of 1994. Since the day it was created, it has suffered several changes, including some important modifications, usually strengthening its enforcement power and speeding up the adjudication procedures. But the general regulatory framework, guided by a mode of regulation based on competitiveness, has remained without structural changes, and it will be described on the coming paragraphs.

The spirit of the law is embedded in a competitive orientation, this law has strengthened of the CADE (Administrative Council for Economic Protection). The organization gained more autonomy to rule cases concerning disputes and practices of the centres of accumulation that went against the principles of regulation determined by the law.

The history of the competition regimes in Brazil

The import-substitution regime of growth (1950-1980), underpinned by a key class alliance of the national bourgeoisie and the state bureaucracy, entailed, on the macroeconomic level, a competition regime marked by a series of protectionist measures and by a "pragmatic protectionism" regime of competition (Kupfer 2005). Here, tariff levels for the import of goods also produced by new national industries would be extremely high, but relatively lower for the imports of capital goods and inputs needed for these industries, virtually insulating the industry from international competition.

This competition regime was fundamental for the establishment of a modern, extensive, well-integrated and almost complete industrial complex, but it was still highly dependent of external technology transfers and it was not enough to provide it with a high innovation capacity (Ibiden 2005), as there was low or no incentives for the companies to invest and improve their efficiency.

As the state lost capacity to invest and promote growth, the industry felt the impact in form of productivity decrease. Consequently, the technological capacity of the industry remained low, the productivity gap between Brazil and the developed countries increased sharply again (Kupfer 2005). The decline of this regime of accumulation came coupled with a deterioration of Brazilian foreign account on the 1980's.

Neoliberalism rises in Brazil in 1990, with the election of Fernando Collor. The government started a series of reforms that heavily impacted the regime of competition. The most significant relates to trade liberalization. With the overture and the consequent reconfiguration of the Brazilian insertion in the globalized international regime, the competition regime would be taken to a new level, with important analytical implications, as well as it adds the role of the exchange rate policy into the equation (Hollard 2002).

Under FHC, the privatization agenda initiated by previous administrations was taken to a higher level. One evidence lies in the chapter on Economic and Financial Order of the Brazilian Federal Constitution (CF), altered nothing less than 26 times, between 1995 and 2002s, by four amendments. The most significant change here was the constitutional amendment n°6 of 1995, ending the legal distinction between foreign and national firms operation in the country.

The "globalist" principle of regulation that predominated in FHC's time had important political economic consequences. The Brazilian national development bank was a key player to the organization of the industry on the previous regime of accumulation, and key to finance the selling of public industries – also regardless of its geographical origins. In 1995, the bank granted only R$ 195 million to finance ventures of foreign firms. The amount soared to R$ 17.2 billion until April 2002, or 13.5% of the total loans (Folha de São Paulo, 19/12/2002).

The whole telecommunication system (27 land line companies and 26 mobile companies) was privatized and divided between 12 consortia (4 foreign capital, 6 mix capital and 2 national capital). In the state level, several banks and energy distribution companies were privatized. But the jewellery of the crown was the Vale do Rio Doce Company and its 13 subsidiaries, sold by R$ 3.3 billion (around US$ 3 billion at the time)[15].

The neoliberal market, which would be expected to be more competitive (at least according to its values), was becoming more concentrated. But to be in consonance to the competitive mode of regulation of the time, this process of reconfiguration of the centres of accumulation, therefore, would require regulations to fight uncompetitive practices in the market and to regulate the newly formed private monopolies in public goods sectors. With this context taken into account, we turn back now to the practices and institutional changes of Brazilian antitrust agency, the CADE.

From controlled competition to neoliberal competition

The establishment of an autonomous antitrust organization in 1994 was born in line with a market determined regime of competition, and was regarded as essential, for it was designed aiming at abuses in the market that might bring price distortions and hinder the effectiveness of the upcoming new currency a month later (Oliveira & Konichi 2007). After liberalization and

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15 A bargain, considering that the company was the 4th largest profit in the country (US$ 725,3 million) in 1995, according to the Revista Exame ranking. The investment of the buyer (CSN, steel) would pay-off in a little more than two years. In 2010, Vale profit was US$ 18 billion, and it is now the 2nd largest company, only behind the Petrobras (public, oil).

privatization, re-regulation was the third necessary step of this regime of accumulation and competition system.

Not surprisingly, although the number of cases adjudicated by CADE increase sharply since the resolution was passed (rising from 226 in 1999 to 660 in 2010), the approved cases with no restrictions composed over 90% of the total cases. In this sense, CADE did little to prevent oligopolization trends (Baer & Amann 2008).

This new understanding of the dynamics of competition among centres of accumulation meant that the formation of conglomerates were not necessarily detrimental, just as long as it was translated in economic efficiency. The seed that would grow to be the central characteristic of the competition regime under Lula was planted.

The transformation of neoliberal competition

Under the Lula government, the regulatory apparatus of the competition regime, established in 1994 and in FHC period, was maintained with little changes, in legal terms. The practices and the behaviour of actors, however, have manifested important changes of pattern. During the 2003-2010 period, the wave of privatization was replaced by a wave of mergers – a movement that was initiated still during the previous period. But the intensity and the nature of the movement has presented important transformations.

Baer and Amann (2008) found, from data of the business magazine Exame that, between 1994 and 2004, out of 19 main sectors of the Brazilian economy, only two expressed a reduction of concentration: IT (a non-traditional sector) and telecommunications (a former monopoly). There was an increase in 14 of them and in 9 there was a significant increase (more than 10 points).

The principles of regulation underneath of mergers and acquisitions can be found in some of the key concepts in the New Trade Theory (Baer & Amann 2008), which argue that the replacement of small competing firms to the formation of large national conglomerates is translated into more **scale-efficient** units, and, thus, forging an international insertion more effective in terms of **competitiveness** (Krugman 1979 *apud* Baer & Amann 2008).

In this sense, therefore, mergers under Lula acquired a clear shift in nature, with tendency of strengthening nationalist principle of regulation. In terms of quantity, if during FHC there were 1.054 mergers involving only Brazilian firms, under Lula the number reached 1.831 (KPMG 2011).

In terms of quality, important mergers were made during Lula, with active support of the Brazilian national development banks (BNDES)[16], in sectors where Brazil had or could have a leading position

16 Examples of the BNDES role on mergers were discussed in the section on international insertion.

The way the bank's resources allocated in each period is an important indicator of the values, ideas and political priorities of the time – and, more importantly the core of the competition regime of both epochs. In this sense, a clear distinction can be made: in during FHC the BNDES was a vehicle to finance the privatization process, especially in state level, during Lula, the BNDES was the vehicle to forge the conglomeration of "national champions".

More importantly, although nationalizations or reversal of privatizations were not made, the BNDES has increased its participation (through its subsidiary BNDESpar) in private firms such as Oi (telecommunication), CPFL (energy), and a total of more than US$ 60 billion invested in shares of 150 companies (including small and middle-size high-tech firms) or investment funds (O Estado de São Paulo, 01/05/2011).

Conclusion

The temptation is strong to see a net continuity process and coherence in the competition regime, looking at the institutional framework that was kept intact, the privatizations were not reversed and the trend of mergers have started during FHC period. However, this argumentation fails to see the important transformations when this apparent coherent pattern, when the processes are looked more in detail. There has been an inflection of mergers and acquisitions.

Indeed, the shifts in the quality of this process in each stage points out to a clear transformation on the alliances that underpinned the respective regimes of growth. The national component of Lula's period and its implication for the competition regime starkly opposes to the orientation made during FHC, where the centres of accumulation were organized accepting the grievances and perks of economic globalization regardless of its flag – the interest of the transnational capitalist class were just as important as those of the national bourgeoisie. This transformation has important consequences both for the regime of growth and Brazil's national trajectory.

4.4 Elements of the Brazilian Monetary-fiscal regime (1995-2010)

Introduction

The monetary-fiscal regime of any capitalist economy holds deep relationships with the given regime of accumulation, insofar it determines the way the accumulation process is financed and the way it circulates in the economy. In the current stage of the capitalist mode of production this fundamental institution deeply connects, in a global scale, with the very production of wealth in itself (see Aglietta 1999, 2001; Chesnais 1996, 1997), and it holds important interrelations with all other fundamental institutions.

Therefore, to understand the maintenance and evolution a particular regime of growth, it is crucial to understand the regularities and transformations expressed on the forms of money – understood here as a social institution in its own right –, in the conditions of issue (and the consequent basis for its valuation) and their structures of circulation (Guttman 2002).

This process entail specific institutional arrangements, such as the creation of central banks, or equivalent organizations, that regulate and define the monetary policy (and its respective mechanisms, such as interest rates and money emission), the exchange rate policy, the regulation of the financial sector (and the mechanisms to provide stability to it), and a fiscal policy that supports (or is supported by) the ensemble of institutional arrangements.

The basis for conditioning the relationship between financial and direct productive capital is given by these structures, which work under a specific set of procedures and ideas that orientate how this policies should be done in order to provide stability for that pattern of growth. In other words, insofar it determines the decisions of allocation of capital in industrial investments or financial assets, "the monetary policy necessarily affects the long-term growth rate, because it affects the technological trajectories [of the given economy]" (Bruno 2010, p. 74).

In this section, we will look at some of these elements and, by no means, intend to provide and exhaustive account of this institutional form and its manifestations in Brazil. Instead the scope of the analysis will focus on aspects understood as the most relevant for the context studies, in order to apprehend the essential transformations that characterized the period concerned (1995-2010). Those aspects were the monetary policy, fiscal policy and debt, credit and investment pattern and exchange-rate policy.

Therefore, this section will be structured as follows: first the functioning of the main laws and organizations that regulated the Brazilian monetary-fiscal regime on the period will be briefly explained, before I set the historical context in which they emerged, in particular in the light of inter-institutional dynamics (relations of complementarity and hierarchy) and shifts until 1999. Then I focus on the tripod that constituted the basis monetary-fiscal regime from 1999 to 2010. Before the conclusion, I will briefly discuss the main transformations from one regime of growth to another, in the light of credit and investment.

The Brazilian monetary-fiscal regulatory framework

For the scope and objective of this part of the section, three interconnected policies were singled out as the most important to the analysis of the monetary-fiscal regime: "inflation targeting"[17] (monetary), "Fiscal Responsibility Law" and the "Untying of the Expenditure of the Federal Government" (both fiscal).

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17 The Real was created to fight inflation, but formally was not operating on a "inflation targeting" in the strict sense. To avoid confusion, in this paper, "inflation targeting" is going to be used in this strict sense (as it is recognized as such in the policies, laws and literature).

In order to operate under the "currency-anchor" mechanism, the Real Plan needed the setting of an adequate fiscal environment. After the 1999 financial crisis and the failure of the "currency-anchor", Brazil formally adopted a new price stability policy, following the publication of the decree n° 3.088 of June 1999, which "established [henceforth], as the guideline for the monetary policy, the systematic of "targets to inflation" (art. 1). Inflation targeting here refers to one particular monetary policy embedded in a broad range of price control policies.

The decree followed the methods of "inflation targeting" policy to the letter. It determined the "wide dissemination" of the price variation goal; foresaw the possibility of margins for the target; provided the Central Bank with operational autonomy (but not formal independence) to pursuit this target. The underlying idea here is to establish a policy based on certain principles of regulation of transparency, accountability and, above all, credibility[18] (Arestis et al. 2009).

This credibility vis-à-vis the market agents is built by disembedding the macroeconomic policy from the political sphere to the technocratic sphere. This insulation is achieved by providing the Brazilian Central Bank with a quasi-independence and a *de jure* operational autonomy to manipulate the monetary instruments to achieve the targets established by the CMN, using an adaptation of the Taylor rule[19] as the main reference, in other words, interest rates are the key macroeconomic mechanism to control inflation.

In the next sub-section, I will set the historic context from which these policies emerged and how they function in relation to the mode of regulation and regime of growth of each period, and how they interacted amongst each other.

The Real crusade against inflation

The Real Plan, launched in 1994, has successfully defeated hyperinflation, and very quickly. The annual price variation rate went from 2,477.2% (IPCA/IBGE), in 1993, down to 22.4%, in 1995. This was achieved through to a set of institutional policies that surrounded the implementation of the Real.

To be successful, the Real needed a permanent rigidity of fiscal policy, so mechanisms to unlink the expenditure (say, for education or heath) were fundamental, so the state could pay the interest on its debt. This meant that large amounts of money would be freed to be transferred from the state to the financial sector, and support the new model of the Brazilian international insertion.

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18 This issue draws from the line of though of the Credibility Theory, which uses mathematical models to analyse dynamics of risk premiums.

19 *Groso modo*, in the Taylor rule equation, nominal interest rates will be determined by the rate of inflation (deflated by the GDP), targeted inflation, assumed equilibrium nominal interest rates, the real GDP and potential GDP (see more in Taylor 1993).

Launched in July 1994, the new currency was based on "currency-anchor" (or more commonly referred "crawling-peg") type of mechanism. Under this logic, the exchange rate is the most important variable, and the other elements of the monetary-fiscal regime work in function of it. Technically the exchange rate is floating, but is constantly monitored by the monetary authorities. The goal here is to have a strong exchange rate, to drag the prices down. This will only be effective, however, if the country has an international insertion with liberalized trade. In this regard, the process initiated during Collor administration was fundamental for the success of the Real Plan.

A liberalized trade and liberalization were crucial for the functioning of the new monetary regime. This system, however, proved to be based on a very unstable model, as it meant a more vulnerable and dependent insertion in the international economy.

The consequence of this internal fragility was felt in the end of the 1990's, when financial crises started to affect several emerging markets – South East Asia, in 1997, and Russia, in 1998. Brazil was the next on the line, as these markets were seen as highly risky ones. The already high interest rates sky-rocked in a very unstable and volatile fashion. Investors started to doubt about the state capacity to keep the strong currency and a huge speculative attack against the real has followed.

With the collapse of the "crawling-peg" mechanism, the Brazilian monetary system would henceforth work on mechanism based on a tripod: a) "inflation targeting"; b) "floating" exchange rates; c) and the execution of high primary surpluses[20].

The monetary policy tripod

This shift represented a re-ordering within the monetary-fiscal regime, although, as the name suggested, with price stability as still the primary macroeconomic goal. Arestis *et al.* (2009) go even further, and argue that, under this policy, *"in the long run the inflation rate is the only macroeconomic variable that* [inflation targeting] *monetary policy can affect. Monetary policy cannot affect economic activity, for example output, employment etc., in the long run"* (*Ibidem*, p. 4).

Monetary policy was perceived as being more responsive to external and internal shocks that might bring price instability. Indeed, preferential form of acting was through the raising (and the maintenance at high levels) of interest rates, generating, as a result, a restrictive monetary policy, all in order to keep prices under control.

On the policy level, the main shift from one price control regulation to the other was in the hierarchies of the system, as the exchange rate policy, now under a "floating" (market determined) exchange rate was no longer the main

20 Positive result of revenues minus expenses of the public sphere (federal government, states, municipalities and public companies), excluding payments with interests. The concept is used to reduce discretion of the government and bring more security to investors that the state will pay its dues.

instrument to bring macroeconomic stability, although it occupy an important role on this monetary-fiscal regime: the main "anchor" mechanism shifted from exchange rate to interest rates. Most importantly, is that fiscal policy would henceforth be working in function of the monetary policy.

Meanwhile, the exchange rate was devalued substantially, and its "floating" market determined regime has relieved the pressure from the country's external account, and Brazil started running trade surpluses from 2000 onwards. In this mode of regulation, however, under a liberalized regime, the country could be vulnerable in an external environment with excess of liquidity, pressuring the currency appreciate. In the early 2000's context, however, the flexible exchange rate had positive macroeconomic stabilization effect.

On the other side, a tighter monetary (interest rates) and fiscal policy (primary surpluses), which caused a severe deterioration of Brazilian pattern of accumulation, with increase of unemployment, average income and stagnation of investment. Between 1998 and 2003, the annual average growth was only 1.6%. The good performance of the economy on 2000 (4.3% GDP increase) proved to be too high for such an unstable regime of growth and low productive investment rates. In 2001, the country suffered a national energy crisis, and the GDP went back to stagnation level (per capita GDP fell by 0.1%).

The state became "immobilized, incapable of defining and implementing the economic policy. Now, this is, more than any other, the defining characteristics of the fiscal crisis" (Bresser-Pereira 2005). Another agreement with the IMF was signed in 2002 and a tighter fiscal policy was imposed for the next years.

When Lula assumed the presidency under this unstable macroeconomic environment, he started he's monetary-fiscal policy deepening the orthodox and conservative traits of the previous government. The perception of the government was that a sudden change in the policy orientation would further the macroeconomic instability of that stage.

So, by initiative of the new government, the target of primary surplus was increased to 4.25% of the GDP. The nominal basic interest rates, which finished FHC mandate at 25%, would be increased to 26.5% (Ipeadata) in February, remaining in that level through the first semester of 2003. These measures were highly criticized by left-wing strands of the Labour Party, as well as by social movements who supported Lula. The immediate result of these measures was a stagnant GDP (-0.02% per capita growth), and the increase of the net public debt (to 57.2% of the GDP) in Lula's first year. On the long-run, however, the conditions for a more stable macroeconomic system were set.

With high interest rates and running large primary fiscal and trade surplus (with the help of a low exchange rate and a commodity boom) resulted in a decline in the "net public debt/GDP" ratio throughout Lula's term, and in a macroeconomic stability scenario, achieved on the Lula's first term. But the interest rates, whenever would never go down to international levels.

The New-keynesian twist

The manifestation of the transformation of Lula's monetary-fiscal regime can be found on the role of credit money for the economy. After a consistent decline since 1995, when total credit represented 32% (BCB *apud* Mercadante 2010) of the GDP, and finishing 2002 at only 26%, this ratio suffered a sharp increase on the next period.

After a slight decrease on 2003, still under the effect of a restrictive monetary policy through high interest rates, and slow recovery in 2004 the credit/GDP ratio increased steadily in the whole period, reached 46.4%, almost twice as in 2003.

This shift was particularly visible when the effect of the global financial crisis hit the country. In this regard, the crisis represented an opportunity to further consolidate a new pattern of alliance between state and national bourgeoisie, and reposition the state in the Brazilian institutional architecture. The anti-cyclical action policies engaged by public banks, especially the federal banks[21], had a crucial role to smooth the exogenous crisis impact on the local economy. The global financial crisis interrupted a short cycle of moderate growth (5% average 2006-2008).

In this context, Brazilian private banks, after leading the credit recovery until then, adopted a cautious stand, increasing the credit only marginally from 25,3% to 26,4% of the GDP from 2008 to 2009 (Brazilian Central Bank, *apud* Mercadante 2010). Meanwhile the public bank sector, whose participation in credit was declining from 1995 (14.4% of the GDP) to 2003 (8.3% of the GDP), increased its credit/GDP ratio by 30% in the same period.

The key public institution here was the BNDES, which was the main responsible for the maintenance of credit for the industry in 2009 (Ipea 2011). The public banks real increase its loans for the sector by 20.4%, while national and foreign private banks reduced their real increase of productive credit (by 3.35% and 13.6% respectively). Thanks to this action, the real increase in the overall credit flow for industry was maintained positive (4.59%) in the worse year of the crisis for Brazil.

This action was important to sustain, to a certain degree, the level of output, and provided the conditions for a fast recovery. In the following year the GDP rate reached its highest variation in 25 years, at 7,49%, more than compensating the 2009 recession, when the economy dropped by 0,67%.

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21 Roughly, public federal banks divide their role financing different sectors each (with some overlapping): the Bank of Brazil (which is also a commercial bank) is the main financial institution of agriculture and livestock; the Caixa Ecômica Federal finances popular housing; and the BNDES finances infrastructure and industry (Ipea 2011)

Conclusion

The mainstream economic explanation reduce the explanation for the good performance of the Brazilian economy over the last six years to a simple a simple continuity of the policies started at the previous period. Indeed, the basis of the policy, the tripod inflation targeting, floating exchange and fiscal surpluses remained. But this analysis fail to acknowledge that there has been some important changes on the fiscal and credit policy, which were catalysed when the global financial crisis hit Brazil.

In one case, in 2003, the orthodox measures were deepened, benefiting the hegemonic fraction of capital (international and national finance), whereas in 2009, a series of heterodox measures were implemented. Also these measures were not taken from nowhere, but were part the logic of the new mode of regulation and regime of growth that had been implemented through this period, but not without contradictions, setbacks and imbalances.

On the other side, to deduce from the change of credit policy, introduction of capital controls and from the action of public banks on the crisis that a clear change process happened, one risks the idea not only of missing the main point: in both periods, inflation target was the paramount macroeconomic goal. This has not change, and it is constitutive of both monetary-fiscal regimes.

These findings reaffirm the argument that points out to a transformation of the regime of growth, guided by a new mode of regulation in pattern of alliance.

4.5 Elements of the Brazilian forms of state (1995-2010)

Introduction

The "nature of the state" is probably the most complex institutional form, when analysed through a regulationist lens, for its multiplicity characters acknowledged in this approach. The state is a key institution in the process of capital formation (public finance and industrial policies), circulation (money creation, rules of circulation) and distribution (fiscal and social policies). Moreover, it has deep and constitutive relations with all other fundamental institutional forms, in a level of intricacy bigger than any other.

The state is a fundamental institution that has exclusive prerogatives. For instance, it defines policies and rules, as well as to mobilize resources, through the government that acts on its behalf (Delorme 2002). But fundamental for this perspective is the state is seen as the site where actors with conflicting interests relate to each other and where *institutionalized compromises* are formed and interests are co-ordinated and materialized in the policies and rules.

The concept of "institutionalized compromises" is defined by André (2002) as the "result from situations of tension and conflict between socio-economic groups over a long period, at the conclusion of which a form of organisation is established, creating rules, rights and obligations for those involved" (p.95). Therefore, she proceeds, because of this conflictual nature of compromise and re-accommodation of strategies and actions by the actors involved, arrangements that emerge from these dynamics tend to be resilient to change and reflect back on future interactions.

In order for the state to function, it must be socially accepted as a legitimate institution, event amid co-ordination failures (Delorme 2002). This concept is fundamental, as it provides the base in terms of ideas, values and power relations that will condition the way the institutionalized compromise is made. One of the most important manifestations of these arrangements is the welfare state of a particular society, in other words, the general system of social protection. These aspects are deeply related to the wage-labour nexus as well, as it relates to the degree of decommodification of labour, the indirect wages and his lifestyle.

The other crucial manifestation of these institutional compromises is manifested in the forms of intervention (Lordon 2002) of the state in the economy. This is a broad concept, and includes economic policies (discussed at the previous section), but also through public investment (or dis-investment), income redistribution policies, minimum wage policies etc.

Hence, in this paper, I will be looking at these three elements – sources of legitimacy, forms of state intervention in the economy and the welfare state system in Brazil –, acknowledging that these factors are too broad to be looked in-depth in just one section and only a limited analysis will be done.

This section will be divided as follows. After this introduction, I will summarize the historical context in which the neoliberal form of state emergences. The next two sessions will refer to the nature of the state in each of the two periods (1995-2002 and 2003-2010), each divided in other subsections, before the conclusion.

A brief overview of Brazilian form of state

The rise of neoliberalism in Brazil, discussed in the previous sections, came at the same time as the apogee of the re-democratization movement that resulted in the 1988 Constitution. This was a major institutionalized compromise, that established (at least *de jure*) a welfare system based on universalist principles, and determining an important presence of the state in the social field, especially on the chapter on "social rights" (art. 6) and the whole title VIII on "social order" (social security, health, pensions, social assistance, culture, education and others).

The 1988 Constitution represented, thus, an "elephant in the room" for the emerging neoliberal hegemonic bloc, and would have to be changed in piecemeal whereas the direct state intervention would be removed at a much faster pace. This process will be analysed in the next sub-section, through the categories of source of legitimacy, forms of intervention and welfare.

From an "interventionist" to a "managerial" state

The neoliberal project to reshape the form of state had two main goals: the first and main one was to eliminate as fast as possible all traces of the development state in Brazil; the second was to reform the welfare in piecemeal, so that the state's finance is subordinated to the international and national private finance.

Sources of legitimacy

The Real Plan was implemented after many failed attempts to defeat inflation. Being officially launched in 1st of July 1994, when the inflation for the month of June alone hit 47%[22] (IPCA), the Real was responsible to the fast drop on inflation rate. This impressive achievement of price control in 1994 provided the state with the necessary legitimacy to introduce the neoliberal reform package.

The legitimacy of the state under FHC government was funded not only in the stability of prices, but on the currency-anchor principle that was underpinning the stability programme in itself. The overvalued currency increased the on the short run, while favoured a pattern of consumption of higher quality imported goods that pleased the middle-class.

This was the very basis of the source of legitimacy for the government to implement a broader neoliberal agenda, which entail a deep restructuring of the production, leading to unemployment, lowering of wages and slow growth.

Form of intervention

The most determining form of intervention in the economy during FHC was precisely regarding the withdrawn of the state from the economy. Indeed, the privatization set the tone not only of FHC's first term (1995-1998). The underlying assumption was that the state not only was technically incompetent to invest in production, but also he was fiscally constrained and incapable of investing.

The privatization, therefore, set the tone to the state intervention: the shift from a producer of goods and services to the market to a manager of the market. After the privatization, break up of monopolies (oil[23]) and concession (exploitation of roads, oil fields, radio and television stations), no less than ten regulatory agencies were created[24], in order to "supervise the provision of

22 The highest value for a month since March 1990, in a year where inflation hit 1,620%.

23 The monopoly of Patrobras in the oil industry chain (exploration, production, refining and distribution) was broke in two stages: first by the constitutinal amendment n° 9 of 1995 and, then, with the regumamentation of the amendment in 1997. The creation of an agency, the National Oil Agency (ANP) came a year after as a consequence.

24 Not all were related to the privatization process. See the full list at http://www.brasil.gov.br/sobre/o-brasil/estrutura/agencias-reguladoras-fiscalizam-a-qualidade-dos-servicos.

public services performed by the private enterprise" and to "control the quality of the services provision, establishing rules for the sector [concerned]"[25].

Similarly, the managerial character of the state was also present in the regulation typical public services, such as health and education, in the creation of institutions such as the Social Organizations of health and the ranking system of higher education institutions.

Welfare state

This innovation of targeted social policies during FHC mandate resulted on the creation of several compensatory programmes, such as the conditional cash transfer schemes. The "Bolsa Escola" (school grant, law 10.219) was established in April 2001. The programme consisted in granting R$ 15 per child from 6 to 15 years old (up to three), to extremely poor families[26]. It was followed by other programmes, created in 2002, such as the "Auxílio Gas" (gas grant), the PET (a grant to dis-encourage child labour). However, on total, this benefits composed only 0.29% of the GDP, and, for its low grants and scattered distribution, it had a limited impact in poverty reduction.

Moreover, these programmes emerged only in the end of FHC government, in a period when the source of his legitimacy (inflation control and macroeconomic stability) vanished after the devaluation of 1999, and as the neoliberal mode of regulation was collapsing, and the emergence of a new mode of regulation gained pace and led to Lula's election, in 2002.

The "managerial" to "new-keynesian-neo-corporatist state transformation"

When Lula assumed the presidency amid a deep instability scenario, he had adopted a position to give up any major institutional rupture and respect contracts, and would face co-ordination serious problems. In other words, the restrictive policies of the previous government, at least in the short run, would continue. This would go against the interests of the social base (social movements, especially unions, civil servants, intellectuals) that supported Lula and his workers party (PT).

Sources of legitimacy and welfare

In order to conciliate his monetary-fiscal constraints and gather legitimacy to support on this turbulent period, before the state could re-articulate itself towards a new economic paradigm, it was necessary to gather a broad social

25 Official website of Brazilian state, available in: http://www.brasil.gov.br/sobre/o-brasil/estrutura/agencias-reguladoras-fiscalizam-a-qualidade-dos-servicos

26 The level of poverty, determined by per capita income of the household, would be set by the president every year.

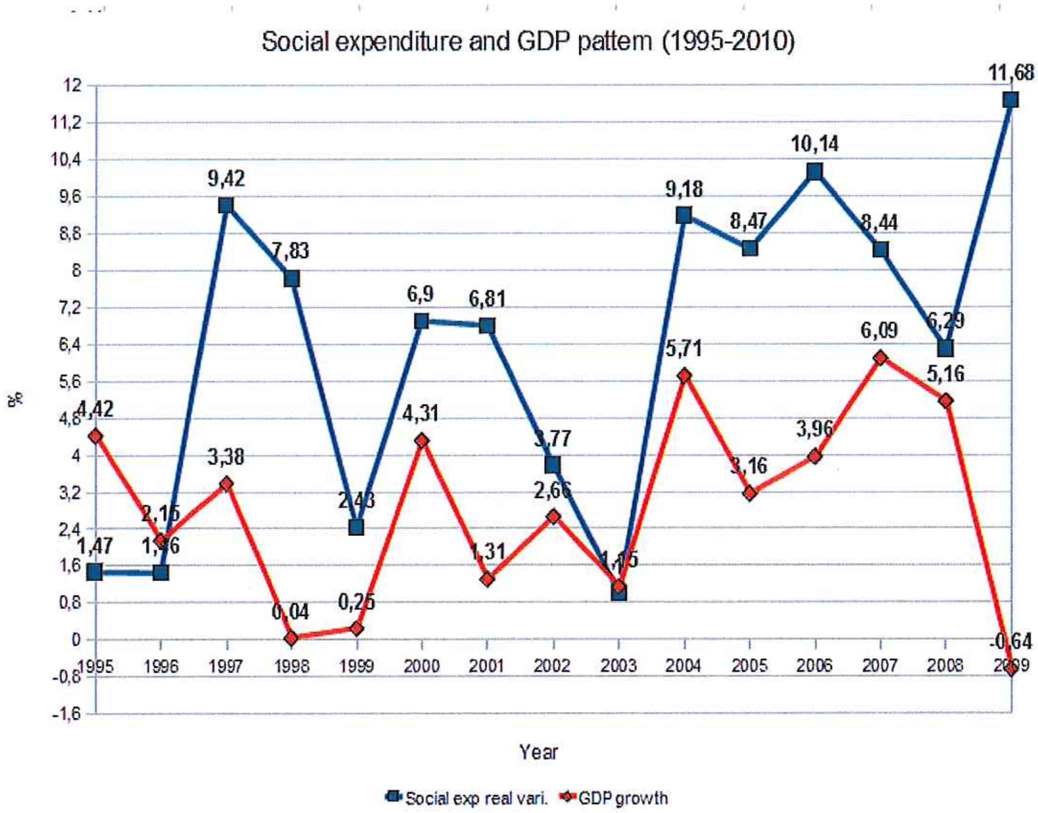
pact. This is when the creation of the Social and Economic Development Council (CDES) comes in, a few months after he took office.

This was an important institutional innovation and worked as an advisory organization for the presidency. The CDES was composed by all the ministers, the president and members from the civil society (workers, employers, social movements, civil society organizations' leaders, academics), chosen according to its "sectoral representation", for an improved social dialogue with the government, and would have mandates of two years.

Regardless of the effectiveness and real influence of the council, the council was at the heart of the sources of legitimacy of Lula's initial first years. This argument is corroborated, by the perception of one of the advisers, close to social movements, when he says *"in the moment of the debate about the retirement reform, the council was no longer a negotiation space, but a space in which the government expose his ideas to the society to obtain legitimacy"* (*apud* Vizeu and Bin 2008).

His second main source of legitimacy was the redistributive programmes, which already started in FHC government, but during Lula, the importance of them improved greatly. The assumption is the same: the state has constrained resources and has to affect as many people as possible with as little money as possible.

In 2004, the Bolsa Familia (family grant) programme (PBF) was launched (law n° 10.835). The programme consisted on the centralization of pre-existing programmes created during FHC period. This meat a technical improvement with large political and economic implications. More importantly, although they were not new, they assumed an unprecedented centrality in the form of state and played a major role on the regime of growth based on consumption. Another example of this policy was the minimum wage policy, raised by 155% in nominal terms, and 62% in real terms, from 2002 to 2010.



Source: Ipeadata

Form of intervention

The fiscal policy played a major role to constrain the form of the state intervention in the whole period (1995-2010). But the constraints came after the first agreement with the IMF in 1998. The institution imposed even tighter fiscal policy in order to lend money and try to save the Real from collapsing (which ended up happening in 1999).

Although fiscal primary surpluses was a constitutive part of Lula's economic policy, the improvement of the economic scenario in 2004 and 2005 allowed the government to anticipate the payment of IMF's loan in 2005, and to be **relatively** more free to implement policies according to a compromise based on a new correlation of forces – which, by no means, meant to disregard external actors, who still played important roles and were more and whose interests became more intertwined with domestic forces. This "independence", however, was not translated in rupture with the economic policy. But it set the conditions for a **flexibilization** of the fiscal regime.

This is the most significant transformation: the new orientation allowed, in certain moments, to detached investment from the fiscal constrain. The state and the state companies would be more capable to invest and, thus, to nurture a future regime of growth.

In this period, federal public investment started suffering a inflection point, and went from 1.8% in 2004, to 2.9% in 2009 (Finance Ministry apud Mercadante 2010). Overall, including states, public the investment hit 4.8% of the GDP in 2009 and a record 5.1% in 2010, the highest ratio post-Real plan. The share of the state over total fixed capital formation rose from 16.8% in 2005 to 26% in 2010 (Portal Brasil 5/5/2011 http://www.brasil.gov.br/noticias/arquivos/2011/05/05/investimento-do-setor-publico-passou-de-2-7-do-pib-para-4-8-do-pib-de-2005-a-2010).

Conclusion

The important continuities from one government regime to another, in particular the target social policies (conditional cash transfers), a restrictive fiscal policy that constrained the government intervention, and the low participation of the government in the total investments. Those arguments are valid, but, as I tried to argue, they tell only half of the story.

The important transformations regarding the basis of legitimacy, welfare nature and form of state intervention in the economy were a manifestation of a new more of regulation, based on New-Keynesian principles, as opposed to a more "disembedded" monetarist logic, and enable the state to gain a new role in the economy in which he was neither the active **promoter** nor the **manager** of the growth, but an active **inductor** of the dynamics of accumulation.

This does not mean necessarily an effective or consistent change yet, which can only be observed on the long term. But signals to a transformation process of the form of the state, which might not be any more the promoter and inductor of growth from the developmentalist era, but might be in a position to undertake macro stability policies in other basis (if the country grow more than the real interest rates). In this way, public finance would be less constrained for further social and economic investment and feed a long-run virtuous circle without ruptures to the international financial system. Other forces, still strong, might push on the other direction, in favour of a tighter fiscal regime to encourage private investment, reducing the debt and thus providing macroeconomic stability through austerity.

Chapter 5
Regime of accumulation, growth regimes and mode of regulation in Brazil (1995-2010)

5.1 Introduction: theory and methodology

The context upon which these institutional forms discussed on the previous chapters relate to each other is conditioned by the set of social-economic structures, which can be observed over the long term, and provide the necessary means for the process of accumulation. Inspired by the Marxian concept, the regulationist approach uses the concept of *regime of accumulation* to define these regularities. However, this approach avoids determinism, very present in some structuralist and of the old orthodox Marxist strands, insofar it also posits the idea that that these institutional arrangements and agents can also influence the accumulation regime (Julliard 2002) in a second moment.

According to this approach, the elements that compose these structures can be summarized as being related to: a) capital creation, i.e., the dynamic sources of change, in technical and organizational terms, conditioning production and consumption patterns; b) the distributive pattern; and c) circulation (Boyer & Saillard 2002 *apud* Boyer 1986; Boyer 2005).

The classifications of the accumulation regimes in the literature usually is divided into two basic ideal types, which are then further subdivided in other groups[27] (and, thus, avoid excess of taxonomy rigidity). The two basic features of long-term regularities are found on the concepts of *intensive* or *extensive* accumulation regimes.

According to Julliard's (2002) definition, a regime is intensive when the technical and organizational configurations of the aggregate production are more orientated to the increase of productivity of labour, taking form in investment to increase capital stock per unit of labour. On the other side, in an extensive regime, the author continues, the accumulation process focus less on efficiency of factors of production and more on the expansion and conquest of new markets, both in terms of production (extensive use of labour and land) and consumption.

However, the concept of regime of accumulation is not enough to analyse the structural processes treated here, for this study refers to medium-term dynamics. Therefore, in order to make more operational the analysis this section intends to do, I will use the concept one of *regime of growth*. This

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27 Examples of sub-groups are intensive regimes with mass consumption (USA post-World War II) or without mass consumption (Western Europe post-World War I); similarly, we have extensive without mass consumption (Western Europe pre-World War I) and extensive with mass consumption (USA post-1980 (Julliard 2002))

concept, that takes better into account the micro-regularities, in **embedded** in the broader accumulation regime, but also useful to explain the medium-term transformations from one regime to another, manifested in the institutional forms dynamics.

The regime of growth characterized by the presence of a main driven source of national income and by a respective form of distribution, i.e., a growth mode (Boyer & Freyssenet 2000). To these interactions, a socially embedded form of circulation, manifested in the monetary and financial regime (expressed in the form of a socially accepted instituted form of money and credit), is required to stabilize and regularize the social relationship of production in the regime of growth.

This regime is defined by an *ex-post* coherent interaction of other three elements, namely, between a *demand regime* and *productivity regime*, through a particular *institutional architecture* (Boyer 1992) – but also by the action of countervailing forces that manage to guide and stabilize the regime (Billaudot 2002b) through a particular *mode of regulation.*

In this section, the mode of regulation will be analysed *in relation* to the regime of growth components (demand and productivity regime). The productivity regime is defined by Amable (2002) as the set of endogenous determinations of the rate of technical progress. It is the equivalent of the "capital creation" component of the regime of accumulation. The second component, the demand regime, is manifested in the aggregate demand components of the GDP – investment, consumption, exports, imports – in relation to the productivity gains (Billaudot 2002b).

Next, I will analyse how this framework applies to the Brazilian case from 1995 to 2010.

5.2 The neoliberal regimes of accumulation in Brazil

The 1980's marked the end of the previous extensive regime of accumulation. The country fell into a long period of crisis and indefinitions about the regime of accumulation, with persistent growth stagnation, thus with no particular sector or societal group able to lead the growth mode, and high inflation rates. The crisis give rise to the emergence of a new mode of regulation, which advocated the more intensive use of the factors of production to increase efficiency and to be able to compete in the global economy, which would mean the transformation to a new growth regime and regime of accumulation.

This new regime started in the early 1990's. When the reform process started, manufacturing industry share on GDP fell dramatically with the liberalization of the early 1990's. Credit for production and consumption also declined (Bruno 2008) and the dynamics of capital creation and circulation was subjected to the logic of the international regime, following, for developing countries, the principles of the Washington Consensus (Williamson 1990); while capital-wage relations severely deteriorated in favour of the former and became gradually more flexible, as the share of wages in the economy fell drastically.

It in is this regime of accumulation, intensive with high inequality, that the Brazilian stage of capitalist development is currently found. On the next section, I will analyse in more detail the main characteristics of the regimes of growth embedded in this accumulation regime, from 1995 to 2010, in the light of the concepts of demand regime and productive regime.

5.3 The 1995-2002 growth regime

Regime of demand

As talked on the previous sections, the privatization, trade and capital liberalization policies of the 1990's, as well as the price stabilization post-1994 are the distinct traits that set the main conditions influencing and characterizing the general pattern of the regime of demand (and also production).

Combined, these conditions resulted in two consequences. First, a small and ephemeral real wage increase, because of the first impact of the stronger currency and because of price stability removed the "inflationary tax" that affected mostly the poor. Secondly, an increase of consumption of foreign goods and services, not only by the elites and middle-classes, but also by the industry, which could import capital goods at lower prices. The coefficient of imports penetration in Brazilian economy from 1994 to 1998 grew more than 100% (Moreira 1999 *apud* Amitrano 2010), and the average technological gap ratio between 1995 and 1999 was in 3.8, the lowest in the period considered.

In the second half (1999-2002) of FHC term, the inherent instabilities of the model became more evident. They related to the distribution deficiencies, still funded in a mode of development with chronically high social inequality and repressed internal market.

The whole period 1995-2002 had showed high instability, in which years of rise in investments (1997, 2000) were immediately succeeded by crises (1998-1999, 2001-2003), resulting in a "stop-and-go" growth pattern. The economy stagnated, as the GDP per capita raised only 0.8% in average, per year.

Regime of production

The liberalization and fast openness of the economy 1990's were taken as the main drivers of technical change. Its immediate effect was a fast and brutal industrial restructuring process, characterized by the introduction of new technologies in the industry (especially the advent of microelectronics) and a re-ordering of the productive organization, with the proliferation of outsourcing, total quality programmes and flexible wages system (Alves 2000, p.101 apud Alves 2002). As a result of this "lean production" productive model resulted by the industrial restructuring process, the share of industrial jobs on total labour market also fell: in São Paulo metropolitan area they represented 33% of the total jobs in 1989; ten years after, they fell to 20% (Alves 2009).

As a result, the productivity levels of the industry increased slowly, but constantly from 1994 to 1997, but stagnation in the immediate following period. One possible explanation is the privatization model adopted by Brazil, which generated large amounts of revenues in form of FDI, nonetheless, were not translated into private investment, as expected.

Furthermore, as Amitrano (2010) highlights, the industries more intensive in technology and service sectors more intensive in knowledge demonstrated signals of stagnation. While the former were manifested in exports stagnation – from 1997 to 1999 (MDIC), high and medium technology goods grew only a 4% growth a year in average –, the former was showed in the stability of employment share in firm services (IBGE *apud* Amitrano). This was the reflex of an overall stagnant rate of growth of productive capital, which grew at 1.15% average per year, during FHC mandate.

The decline of productivity, therefore, made the Brazilian economy vulnerable to the external shocks, and the neoliberal mode of regulation was unable to co-ordinate problems of distribution and stabilize the regime of growth.

The 2003-2010 growth regime

Demand regime

The endogenous instability in which Lula assumed the presidency in 2003 made the dynamic centre of accumulation to shift towards the external sector, a trend initiated during the last years of FHC, when China demand coupled with exchange rate devaluation generated an improvement in the Brazilian balance of payment result. This favourable context provided stability for a transformation of the growth regime, supported in a different *régulation* and mode of development.

On the side of the demand, the period from 2003 to 2010 was marked by a profound distributive transformation, resulting in an unprecedented decline on income inequality. As discussed on the previous chapters, four explanatory factors characterized the change in the demand regime: credit share/GDP expansion; minimum wage policy with important real annual increases (coupled with social security universal retirement system); improvement of real wages and registered work; and new centrality of conditional cash transfer programmes (Bolsa Familia).

The consumption was, as a result, the most dynamic sector and set the institutional conditions to reduce uncertainty for private investment to be done. On Lula's first term (2003-2006), productive capital investment grew at a rate of 4.48% per year, in average – a sharp contrast to the previous period, where in average it declined by 2% per year.

The state banks, the BNDES in particular, increased consistently the concession of credit to the industrial sector, and was a key institution keep the flow of credit for the sector when the private financial institutions adopted a conservative and pro-cyclical stance.

Coupled with the recovery of investment, the growth peaks (2004, 2007, 2008 and 2010) were correlated with unemployment reduction. This is by no means an automatic relation: the previous regime of growth had the opposite trend. The growth peaks of 1997 and 2000 were followed by a sharp increase or stagnation of the unemployment rate. This is a clear indication that these are two different growth regimes, underpinned by different institutional arrangements and modes of regulation.

Productivity regime

The macroeconomic stability was the precondition for the recovery of the economy and for the beginning of a growth regime forged under new basis. The intensity of labour productivity increased, coupled with an increase on real wages and the reversal on the decline of wages on the GDP. However, the macroeconomic stability and increasing external demand alone cannot explain the relative consistency of the growth regime.

The institutional form of the state assumed a new co-ordinating position in the Brazilian institutional architecture, and a real inductor of technical change. Apart from the counter-cyclical policies during the crisis, another manifestation of this new mode of regulation was the creation of the two industrial policies (the Industrial Technological and Foreign Trade Policy, in 2003, complemented by the Productive Development Policy, in 2008). This is, by no means, irrelevant: the publication of a real industrial policy *in itself* represented a change with previous logic, clear in the speech of Pedro Malan, the Finance minister throughout FHC administration: "The best industrial policy is not to have an industrial policy" (apud Arbix 2010).

The industrial policy of Lula's government was centred in the the principles of regulation of innovation, competitiveness and internationalization. Contrary to the common sense belief, the industrial policy had concrete and tangible results[28], which can be seen in the institutional arrangements, tax breaks and financing. The result of this policies can be verified in the increase of the innovation rate[29], which increased from 31,5%, in 1998-2000, up to 38,1% in 2006-2008[30].

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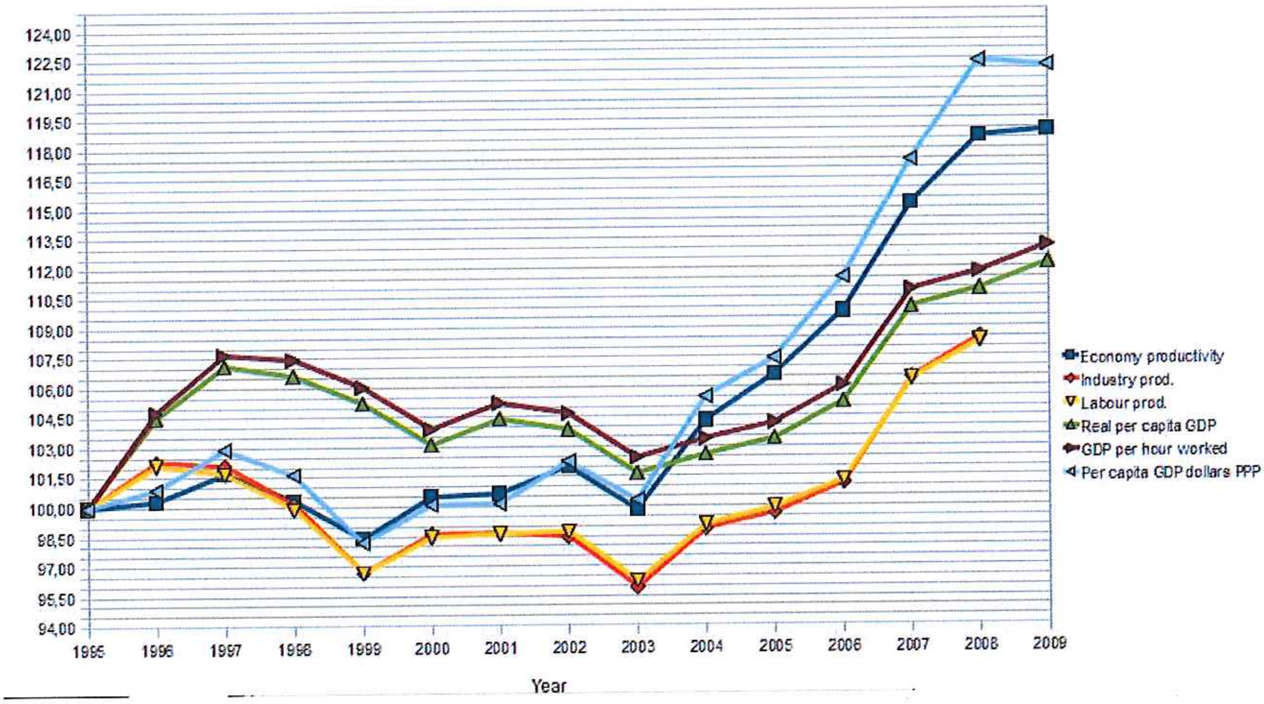
28 More information on the PDP can be found at: http://www.pdp.gov.br/Relatrios/Macrometas%20_%20Balan%C3%A7o%20geral_vers%C3%A3o%20final.pdf

29 The ratio is given by the number of innovative industrial firms divided by total number of industrial firms.

30 MCT

Brazilian Economy productivity 1995-2010 (1995=100)

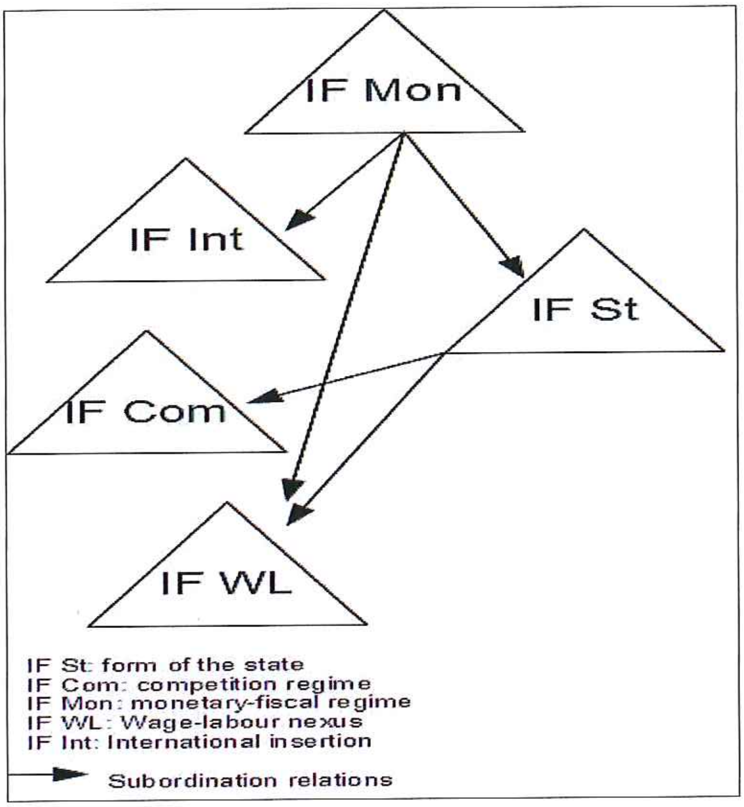
Source: Penn World Tables



5.4 The institutional architecture dynamics 1995-2010

In the 1990's (figure 1), with the election of Fernando Collor, the neoliberal logic, in which the market mechanisms and forces (in particular international finance and multinational corporations) had the primacy of steer and stabilize the regime of accumulation, was becoming the dominant form of regulation. In this system, the logic of the international regime of the time, globalization of markets and intense capital mobility, had the hegemony over the monetary-fiscal regime, and also determined trend towards an incomplete finance-led growth. International credibility was the key principle of regulation, achieved through fiscal discipline (debt servicing) and high interest rates (to attract foreign investment). The alliance with the national industrialist class was broken.

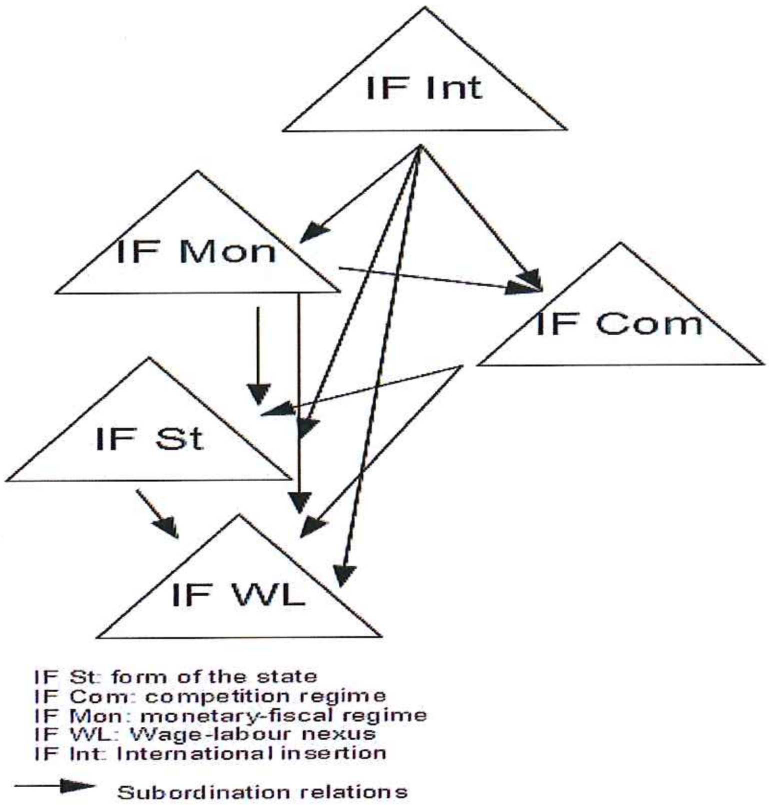
Figure 1.



Those two dominant institutional forms, therefore, constrained and imposed their logic over the state, which had its capacity to intervene in the economy severely hindered, and was relegated to managerial position (minimum state). The way the competition regime presented its complementarity vis-à-vis the mode of regulation, expressed through a competitive dynamic, both in the trade and capital liberalization and in the privatization process; private credit to investment was constraint, and government intervention would be orientated to finance privatization rather than innovation and infrastructure.

The wage-labour nexus again was in the bottom of the institutional architecture, suffering the consequences of the productive restructuring resulting in massive unemployment, stagnant wages, and increasing flexibilization and precarization of work. Furthermore, it suffered the direct consequences of the fiscal constrains of the state, which resulted in its lack of capacity to provide an adequate universal welfare state. Inequality stagnated; the labour union movement was weakened and divided.

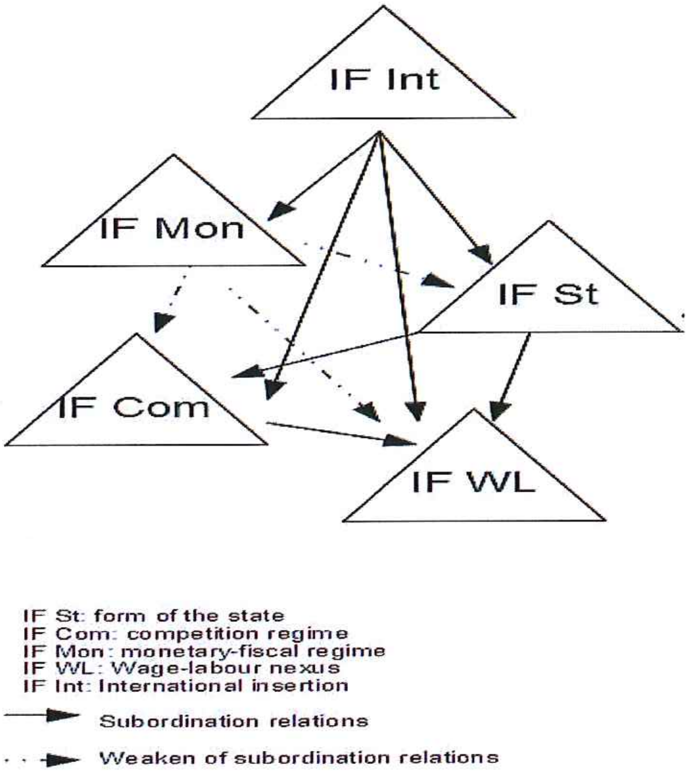
Figure 2



In the 2000's (figure 2), after Lula's election and the crisis of the previous mode of regulation and regime of growth, neoliberalism suffered important transformations. The main institutional shift was regarding the state. This institutional form has acquired a new centrality on the institutional architecture, but is still is subjected to the logic of the monetary-fiscal regime and, above it, of the mode of international insertion on the global economy. But in a different way.

First, the focus of the international insertion was based now on the objective of increasing exports to finance its balance of payments, instead of further liberalization of capital flows. Also, the degree of subordination of the state to the monetary-fiscal regime has changed, to become more flexible to target not only inflation, which remained the ultimate macroeconomic goal, but level of output (through investment) was also a concern of the fiscal policy.

Figure 3.



Despite of the monetary constraints, the state became a legitimate force to co-ordinate the regime of growth, and imposed its national-competitive logic to the regime of competition, fostering the formation of national conglomerates and developing industrial policies. The wage-nexus also gained a new centrality. On a sectoral level and in contrast to the 1990's, wage bargaining resulted increasingly in favour of the workers, the precarization trend was reversed, the minimum wages increased to high levels, and inequalities fell to unprecedented levels, pointing to a consumer-orientated growth. As for the labour movements, it converged to an alliance with the state, but in a subordinated position in relation to the new-Keynesian/neo-corporatist logic.

Table 1 - Growth regimes in the neoliberal regime of accumulation

Period	Wage-labour nexus	International Insertion	Competition	Monetary-fiscal	State	Growth regime
FHC (1995-2002)	Flexible and competitive	Finance-orientated	Globalist competitive	Monetarist	Managerial	Incomplete finance-led and competitive
Lula (2003-2010)	Neo-corporatist	Export-oriented	National-oligopolist	New Keynesian	Peripheral welfare	Consumer orientated and semi-cordinated

5.5 Conclusion

Analyses that are prone in favour of a continuity of the regime of growth from FHC to Lula tend to misinterpret reality for taking one factor – usually the economic policy – and isolating it from the broader institutional and political field, disregarding the processes of struggle and the broader variety of actors and simultaneous processes.

Furthermore, some analysis might tend to be binary, and reproduce a caricatured Marxism, in which either the changes happened in favour of capital or in favour of labour. In this chapter, I tried to see that these two main classes are more complex and contain divisions in their own, and thus, the accumulation process might swing according to a broader process of struggle and institutional arrangements. The perception of rupture is also largely imprecise. The period has shown clear regularities in the accumulation process, despite of the medium term transformations. The institutional architecture changed, but the subordination to the orthodox values dictated by international regime remains.

The analysis done on this paper does not lead to an obvious middle ground position of some continuity, and change, but it tried to go further to show how and why the recent development process in Brazil is about a dialectical interaction between these contradictory dynamics, in a transformative and evolutionary way.

Chapter 6
Final remarks

The study of broad development processes requires necessarily an embedded and extensive account that is able to capture dynamics in the fundamental spheres of society where the processes of continuities and changes are produced and expressed. These broad and complex dynamic processes can only be adequately understood in its complexity through an approach that is equally broad and complex, and that avoids the "voluntaristic illusion" of giving the economic sphere an autonomous and reified status over the social-political spheres.

It was with this assumptions that present study on contemporary Brazilian development paths, using the regulation theory approach, was made. The attempt here was to apply the theory in a rigorous way for the Brazilian context in the hope to be able provide elements the regulationist debate in Brazil, which already counts with some incipient but consistent and rich literature production, such as in the works of Miguel Bruno, Luis Carlos Bresser-Pereira and Claudio Amitrano.

More specifically, in this paper, I used the Regulation Theory was to provide to the Brazilian debate a work that, analytically, that tries stress more institutional dimensions, and to derive from them the structural and "agencial" processes and dynamics (growth regime and mode of regulation), instead of departing from the economic analysis understand how does it reflect institutionally.

Theoretically, it was relevant to this case the use of the notion of transformation, tendency and evolution. In this paper, I argue that Brazilian recent events on the field of development is neither a continuity of the same processes, nor a complete rupture to a whole new dynamic. Instead, I suggested that we are facing a case of continuity-change, in which, dialectically, the new dynamics (that might seem at a first glance as change) is constituted by central aspects of the old processes (which also might also appear as a continuity), in a evolutionary fashion. Claims in favour of one or another neglect this contradictory processes of transformation of the Brazilian mode of development.

These conclusion does not provide a definitive answer, and it was never the goal of it. Instead, this paper raise more questions that to actually answer. However, the analysis of the potential unbalances of the system through a regulationist might that was done in this paper points out to certain tendencies and elements of potential unbalances.

The effect of the crises is also a topic addressed here that should be better researched: why the exogenous crisis of 1999 had such devastating effects, and so did the 2002-2003 crisis, but the 2008-2009 crisis were less painful to overcome? If Brazil was in a much more "stable" cycle of growth, why than the GDP fell so drastically, and in countries such as India and China kept a less volatile growth rate? And how sustainable was the fast recovery, and which are the political and economic effects of it for the regime of growth? These are questions raised that also require further studies.

Also regarding the state, the consistent rate of fall of inequality and increasing social mobility might, if maintained, might evolve to new regime of accumulation based on mass consumption. The monitoring of dynamics and unbalances that block such a tendency is also essential, as it is the future research of the impacts of the growing social expenditure, and in particular in education, for the regime of growth and for the capital-labour relations.

To conclude, this study hopes to have helped the development debate in Brazil, both in the way questions were answered and in the way unanswered problems were raised, and to have, in this manner, brought more elements to understand the complex reality of the topic.

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