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Economic Power, Development and Neoliberalism in Brazil

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After its process of industrialization (1950s and first years of 1970s), the Brazilian industrial park became dominated by subsidiaries of large transnational companies that currently hold the control of productive value chains, especially medium and high technology. Neoliberal policies from the 1990s further contributed to internationalization of the industrial park by the privatization of state-owned enterprises, as well reinforcing foreign presence in value chains. Additionally, the "global outsourcing" system also promotes de-industrialization in some sectors. Those neoliberal policies are the result of the subordination of the interests of the national class to large transnational groups. Brazilian financial conglomerates also gain from the orthodox policy that supports neoliberalism. These interests prevent policies from creating a competitive and independent economy. Attempts to change this power structure are always blocked as disrespect to the economic orthodox thinking that serves as technical justification to neoliberalism. Is it still possible to break these relations of subordination and dependence towards real development?

Keywords: economic power, development, neoliberalism, Brazilian economy.

Siła gospodarcza, rozwój gospodarczy i neoliberalizm w Brazylii

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Po procesie uprzemysłowienia (w latach 50. i na początku lat 70. XX wieku) brazylijski park przemysłowy zdominowały spółki zależne dużych przedsiębiorstw międzynarodowych, które obecnie kontrolują produkcyjne łańcuchy wartości, zwłaszcza w sektorze średnio- i wysokorozwiniętej technologii. Prowadzona od lat 90. XX wieku polityka liberalna dodatkowo przyczyniła się do umiędzynarodowienia parku przemysłowego poprzez prywatyzację przedsiębiorstw państwowych oraz zwiększenie udziału spółek zagranicznych w łańcuchach wartości. Ponadto deindustrializację w niektórych sektorach wspiera także system „outsourcingu globalnego". Tego rodzaju polityka neoliberalna wynika z podporządkowania interesów przedsiębiorstw krajowych dużym grupom międzynarodowym. Brazylijskie konglomeraty finansowe również czerpią korzyści z ortodoksyjnej polityki wspierającej neoliberalizm. Interesy te uniemożliwiają tworzenie konkurencyjnej i niezależnej gospodarki za pomocą polityki. Próby zmiany takiego układu sił są za każdym razem blokowane jako sprzeczne z ortodoksyjnym sposobem myślenia gospodarczego służącym za uzasadnienie neoliberalizmu. Czy nadal możliwe jest położenie kresu tym relacjom podporządkowania i zależności na rzecz rzeczywistego rozwoju?

Słowa kluczowe: siła gospodarcza, rozwój, neoliberalizm, gospodarka brazylijska.

JEL: O1, O2, O5, P5, E6, N4

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1. Introduction

After the industrialization processes of the 1950s and 1970s that delivered Brazil from its structural dependence on commodity exports[1] (coffee and sugar), the country has once again become an exporter of primary products. Although 60% of Brazilian exports comprised manufactured products until the 1990s, today the country joins the world economy as an exporter of low valued-added commodities. Soybeans and iron ore are its main export products, 50% going to China. The share of manufactured goods in total Brazilian exports today is 38%, with a special focus on Argentina. How did Brazil fall into this situation?

This article seeks to show that this situation was determined by Brazil's historic strategy of subordination to the global movement of big capital (see Sawaya, 2006), subordination consented by the power of its internal elites that, by doing so, have strengthened their power in the national economic structure, preventing any developmental strategy and adopting instead neoliberal policies.

2. The Establishment of an Industrialized Brazil

The new international relationship of dependency has its origin in how the Brazilian industrialization process occurred in the 1950s and 1970s. It left an important amount of command and control of its productive structure in the hands of big transnational capital, especially in sectors of medium and high technology.

Brazil's strategy arose as a result of the "National Development Plan" of the government, also known as the "Plan of Goals" ["Plano de Metas"] (1956–60), which implants the so-called "tripod of accumulation" whereby: (a) the national State takes part in the industrialization project by investing in basic industries, infrastructure and long-term credit; (b) international productive capital becomes responsible for investments in sectors of medium and high technology (consumer durables); and (c) domestic productive capital invests (as before) in traditional industrial sectors (non-durable goods), and also takes a subordinate role in the "tripod" as a supplier of parts and components for big transnational capital. "The State and the big global oligopolistic companies unequivocally commanded the process of heavy industrialization [1956–60]" (Cardoso de Melo, 1982, p. 119).

As a result, foreign direct investment (FDI) increased 3.5 times between 1955 and 1957, largely as productive investment "in the form of equipment" (Orenstein and Sochaczewski, 1990, p. 173). Between 1951 and 1960, slightly more than 42% of this investment came from the United States, 11.4% from Germany and 14% from Switzerland. While in 1953 the textile and food sectors were responsible for the greatest share of the gross value added by industry (35%), the situation changed in 1963 and their share

fell to 25%, while the share of gross added value of the transportation equipment sector (dominated by transnational companies) grew from 2% in 1953 to 10.5%. Also noteworthy is the segment of electrical material, with equally strong transnational participation, which grew from 3% to 6% between 1953 and 1963, as well as chemicals, pharmaceuticals, rubber etc., whose share of gross value added rose from 11% to 15.5% (Baer, 2002, p. 87). This shows the huge transformation of Brazil's industrial structure and the role of foreign direct investment in this process, which resulted in enormous concentration of economic and political power in the hands of big, oligopolized international capital that located its production plants in Brazil. It established new relationships of dependence – technological dependence this time around, which would turn into structural dependence. All the waves of industrial modernization will have after that an impact on imports of machinery, equipment and technology, resulting in foreign indebtedness: "… ended up by consolidating and expanding the associated dependent capitalism…" (Ianni, 1986, p. 159).

Political power began to arrange itself in a State-mediated productive alliance of domestic capital subordinate to transnational capital. The power of this capital bloc materializes and gains strength in the military dictatorship (1964–85) by destroying the working classes' ability to claim their share of income and by preventing land reform, among other aspects. At the same time, this political power gains a new ally with the banking reform of 1966: "Banking conglomerates … enabled the concentration of domestic financial capital … and became a new element of the dominant bloc" (Tavares and Assis, 1985, p. 39). The domestic private banking and financial system established links both with big transnational capital (as intermediary of foreign loans) and with the upper middle class (by providing credit for it to purchase the consumer durables produced by transnational companies that had established themselves here). The structure of political power was consolidated by the world's most perverse concentration of wealth (see Tavares, 1982, p. 186). The power alliance in Brazil took on the following arrangement: large transnational companies, private domestic capital subordinate to them, private domestic banks and an upper middle class that was growing stronger. It should be noted that this was organized by the State, which still possessed a central role in the economic structure (through state-owned companies and as provider of long-term credit), now in the form of a military dictatorship.

This internal power structure has strong international ties (see Schoutz, 1999, p. 397). A notion was consolidating in the United States from the 1950s that development in Latin America required the creation of a

> "…military, corporate and even union elite that would establish a strong political system … The 1964 coup in Brazil was the founding moment of this new model … Gave rise to a type of modernization founded on the alliance and integration [of the] bourgeoisie with transnational capital, enacting an industrial development that

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was dependent on and subordinate to the modes of expansion and organization of international capitalism, and that would subject the local centers of accumulation to the expansion logic of the world's hegemonic center. Since then, through successive military coups [in Latin America], the local bourgeoisies submitted themselves as junior partners of international capital, abandoning their prospects of national independence and [Brazil's] claims to its own technological development" (Dos Santos, 2000, p. 95).[2]

The program of the military government (PAEG) came to be known as "economic miracle" (1966-72) and tripled foreign direct investment during this period. The United States kept its historical position as the largest investor, with a 38% share in the period 1961-70 and 36% between 1971 and 1979. Europe, on the other hand, increased its share: from 1951 to 1960, European countries were responsible for 31% of foreign direct investment in Brazil; between 1961 and 1970, however, their share comprised almost 50% of total foreign investment, under the leadership of West Germany and Switzerland, which totaled 23%. Therein lays the origin of Brazil's foreign debt, which would lead to the Balance of Payments crisis of the 1980s. In 1966, foreign companies accounted for 44% of funds borrowed abroad, alongside the state-owned companies, which accounted for 46%. Privately owned domestic companies borrowed only 6.5% of total resources (Abreu, 1992, p. 223). At the end of the cycle, foreign companies were still large borrowers of external funds; in 1972, transnational companies borrowed 64% of private funding obtained abroad (Cruz, 1982, p. 78).

Neoliberalism – which emerged as the dominant ideology along the 1980s during the balance of payments and inflationary crisis[3] – raided the Brazilian political structure in the 1990s. Neoliberalism is structured upon the "power bloc" that, paradoxically, is constituted by previous development strategy implemented in the historical process described above, which consolidates as "combined development"[4] associated with big transnational capital. It took advantage of the so-called "scrapping" of the State and of the state-owned production structure in the 1980s – widely used to fight inflation by freezing prices and fees (see Belluzzo and Almeida, 2002, pp. 128–135) and to borrow external financial resources to compensate for the deficit in the balance of payments.

The inflationary crisis of the 1980s further strengthened one of the most important institutional advocates of neoliberal policies: the national private banking and financial system. The orthodox strategy of fighting inflation by issuing government bonds to absorb liquidity and raise domestic interest rates[5] created a banking and financial structure whose profitability was not based on credit, but on government securities and their high interest rates. "In this dynamics … the non-financial corporate sector began to accumulate liquidity rights against the State"[6] (Belluzzo and Almeida, 2002, p. 134). "They thus exercised … a huge deterrent power over monetary and interest-rate policy…"[7].

3. Neoliberalism in Brazil – 1990s

Neoliberal power was consolidated during the 1990s by the dismantling of the national State (or of what it still retained as "developmentalist" and "national"), eliminating its technical personnel and replacing them with a bureaucratic technocracy led by economists and economic engineers with PhDs from the United States[8]. It had dual determination. On the one hand, it was the result of deliberate government action, put into practice by policies that gave full freedom to the movement of international productive and financial capital, sewn with broad support from the internal blocks of power. On the other, it was the result of an international "ideology of globalization," materialized into policy recommendations to protect the interests of global productive and financial capital – based on the "Washington Consensus". On the one hand, it was an imposition of the global accumulation process; on the other, it was a deliberate strategy of the national elites, a strategy forged during the inflationary crisis and the growing foreign indebtedness, and upon the scrapping of the State and its productive apparatus in the 1980s.

Submission to global capital movement was a deliberate policy in the 1990s, as had been, after a fashion, the industrialization strategies associated with the "Plan of Goals" (1956–60) and the "Economic Miracle" (1966–73). The contexts, however, differed. In those previous growth cycles, the process of global capital accumulation involved the peripheral countries by transferring production plants via foreign direct investment. In the 1990s, global capital movements were characterized by a type of productive reordering based on mergers and acquisitions (UNCTAD, 2000), a global process of capital centralization, whereby the strongest capitals both shrink their productive structure by combining various plants around world into one and eliminate the weaker capitals. "… crossborder mergers and acquisitions are now the main instrument to penetrate new markets and consolidate the global market share of transnational corporations" (IEDI, 2000, p. 8).

The new project involved the dismantling of the developmentalist State – and, contradictorily, of part of national private capital (a mere junior partner of transnational capital in the value chain), which had lost space to imports or sold its businesses to transnational capital, adding up the rentier elite. This is how the dependence of the Brazilian economy is replenished by, or subjected to, or subsumed into the global capital movement, which gains much more power internally. "In practice, the neoliberals promoted a radical transnationalization of the productive structure and of the decision-making centers of the Brazilian economy, a political-economic strategy that radically weakened the Brazilian State and economy…" (Fiori, 2001b, p. 285).

Based on the "Washington Consensus"[9], fiscal, monetary and exchange-rate economic policies were also given a new role. Their goal was no longer development and jobs creation, but maintaining macroeconomic stability

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for international investors. The exchange rate must be stable to ensure that incoming resources do not lose their value when leaving the country – the foundation for the free flow of goods and financial resources. Fiscal policy should be neutral and maintain proper balance both to make private savings available to entrepreneurial investors and to prevent interference in real market by distorting "equilibrium prices" and their allocative function. Monetary policy should also be neutral, guaranteed by a preferably independent Central Bank focused on controlling inflation through interest rates. Any movement that might interfere with the "rational expectations" of the agents should be banned. The theoretical orthodoxy was complete. With macroeconomic stability ensured, it was thought that the "economic agents" scattered around a well-behaved free market of supply and demand would ensure the best allocation of productive resources, as well as balanced and equitable growth.

The argument behind this logic was that the crisis of the 1980s was the result of distortions created by interferences of the "developmentalist State" in the market, which prevented its perfect adjustment (Franco, 1998). From this perspective, leaving the markets free, trusting their self-tuning capability, was the first and foremost condition for economic growth. In this scenario, both national and transnational investors would invest with "maximum allocative efficiency," putting the Brazilian economy on the path to growth.

This strategy was clearly advocated by Gustavo Franco (1998), who formed the team of the new bureaucracy and headed the Central Bank. He justified adherence to liberalism by claiming that "… the process of [commercial] freedom, through its effects on the country's technological dynamics, will define the basic contours of the new growth cycle … a positive insertion of the country in the process of internationalizing production as a basic determinant of accelerated productivity growth … can reduce social inequalities without inflationary impacts" (Franco, 1998, p. 122). The rationale for adhering to liberalizing policies as a means to promote development would lie in the "insertion … of the country in the process of internationalization." In the 1990s, this was accomplished by creating a scenario to attract transnational capital, relying on a new wave of "internationalization of production" by transnational corporations (Franco, 1998, p. 123). Because the "power [of transnational corporations] in Brazil is enormous," they would be the true agents of development in the future. "Restrictions on imports … together with macroeconomic instability … [are the causes of] Brazil's extraordinary loss of importance as recipient of foreign direct investment" – which would only begin entering the country after the policies of the 1990s, he concludes (Franco, 1998, pp. 124–125) – revealing complete ignorance of the history.

Thus, the traditional developmentalist State that had built the institutional apparatus that indeed helped put transnational capital in charge of the domestic productive structure "… is seen almost as an obstacle to

progress" (Cardoso, 1995, p. 152), as pointed out by Fernando Henrique Cardoso, President of Brazil at the time – and quoted by Franco (1998, p. 143). He imagined that "investments occur because the private sector believes in the sustainability of a basic macroeconomic framework. They are no longer the consequence of a 'national project' comprising megainvestiments hatched in cabinets. The State is no longer the primary agent of the process…" (Franco, 1998, p. 143). The idea is brought to conclusion with the statement, "It is not only the neoliberal ideology that acquires a temporary hegemony. More than that, it is the material bankruptcy of the State itself, both in rich and in poor countries, that leads to a reform effort that cannot be ideologically molded" (Cardoso, 1995, p. 52).

We can explicitly see the idea that the solution to underdevelopment is total adherence to the movement of global capital, i.e., neoliberalism. This is how Cardoso points the way: "The reforms are well known – economic stabilization in a framework of balanced public accounts; privatization and trade liberalization; the creation of adequate infrastructure and of an agile and modern financial system; availability of quality [public] management; and acceptance that the State's priority is to provide basic services, particularly education and health" (Cardoso, 1995, p. 155). There is no need to show the similarities with the Washington Consensus. Neoliberal strategy placed the Brazilian economy definitely in the arms of global capital, establishing a new relationship of dependence that defined the country's structural position on the world stage as "a junior partner of Western capitalism … obeying only the interests of greater freedom for capital flows and the geo-economic and political developments of its continued internationalization" (Fiori, 1995, p. 237).

Despite the impact on the national productive structure of the economic policies that were adopted, these policies had a devastating effect on the internal and external debt of the Brazilian economy – all for the benefit of the rentiers. The combination of trade liberalization and a stable and overvalued exchange rate – whose purpose was to stabilize inflation with a "shock of competitiveness" – immediately led the industries established here[10] to lose space and created huge trade deficits that had to be covered by attracting dollars through the Capital Account. To this end, domestic interest rates rose[11] – and, given a stable and overvalued exchange rate, low and stable inflation, this became the most lucrative business for foreign speculative financial capital – with an immediate increase in public debt (where this capital was invested) and external debt (due to the greater inflow of foreign funds). The financial and banking system, as well as the rentier class, ensured their position through interest earned on the growing public debt. Gross external debt rose from US$ 96.5 billion in 1990 to somewhere around US$ 220 billion in 2001. The internal public debt rose from 28% of GDP in 1995 to almost 60% in the early 2000s[12] – a period that, except for a small deficit in 1997, saw operational primary surpluses.

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The external debt still grew because of the increased participation of foreign capital in the Brazilian economy, flowing in mainly through mergers and acquisitions,[13] particularly the purchase of state-owned companies. In the case of productive enterprises, trade relations between parent company and subsidiaries led to an increase in imports of parts and finished goods.[14] Enabled by the financial liberalization, transnational corporations became the most important takers of foreign funds. According the Institute for Studies on Industrial Development (IEDI), "… foreign companies accounted for 61% of Brazil's deficit in current transactions in 2000 (vs. 31.8% in 1995) and for 66.9% of the increase in the country's foreign debt between 1995 and 2000."

In the end, the Brazilian economy became much more vulnerable and subordinate to the movement of big transnational capital, weakened in its ability to act by the dismantling of the State and the "denationalization of most industries. While the participation [in revenues] of foreign capital companies among the five hundred largest companies operating in Brazil accounted for an average of 30% throughout the 1980s, this share grew until the mid 1990s, reaching 45.8% in 2001" (Lacerda, 2004, p. 83). State-owned enterprises saw their share of revenues fall, from an average of 33% to 20% (Lacerda, 2004, p. 84). According to Lacerda, capital stock paid in by non-residents rose from US$ 41.7 billion in 1995 to US$ 103 billion in 2000. According to Reinaldo Gonçalves, it is estimated that more than half of the production of Brazilian assets was in the hands of transnational corporations, which controlled 40% of the industry and 30% of agribusiness. On the commercial side, the author estimates that two thirds of the product offerings of the electronics industry were imported (Gonçalves, 2003). In the auto parts industry in 1994, domestic companies dominated, with 52.4% of total revenue; their share fell to only 27% in 2000, while foreign companies' share rose to 73%.

The result was the opposite of what the mentors of neoliberal policies desired and of what the economic theory of natural development "convergence" expected. If, on the one hand, economic growth was low, on the other it fostered greater control by transnational capital of the Brazilian productive structure – extending to agribusiness as well. Actually, what occurred was that industry's share of GDP fell and industry's share of exports suffered a huge blow.[15] The relative deindustrialization that occurred in the 1990s also became visible. According to Belluzzo, "the 1990s are characterized by deindustrialization, understood as a reduction in the internal added value vis-à-vis the gross production value and as a reduction in the number of jobs (more than 1.5 million jobs were lost during the decade) in the manufacturing industry", not to mention the "loss of position in the ranking of manufacturing value-added, where Brazil's share fell from 2.9 to 2.7" (Belluzzo, 2003). Compared to what happened in developed countries, one sees that, in Brazil, the manufacturing sector's share of GDP

dropped by 10 percentage points between 1980 and 1999 (from 33% to 23% of GDP), and continued to fall until the end of the 2000s[16]. This signaled a structural change in Brazilian industry, which would not recover – even during the growth of the 2000s. (Actually, industry would no longer grow, period, as we shall see.)

The neoliberal policies also preserved and increased the power of the national private financial system, that is, of the rentiers, on managing public quasi-money, the government bonds. Despite attempts in 1991 to dismantle the 1980s "financial dancing" (see part 2 and footnote 9) of the rentiers at the expense of the State, the policies of stabilization and liberalization of the 1990s, by setting high interest rates, resulted in an enormous growth of the domestic State debt. The financial institutions did appropriate for themselves, via interest rates, 7% of GDP annually in the early 2000s. These banks now have as their allies the new rentiers, the former productive entrepreneurs and non-financial companies that gain financial profits over the public debt. The banks would become the greatest power within the hegemonic bloc, side by side with big transnational capital. In addition, the privatization of local State banks strengthened their power. Today five large private banks dominate the system and constantly press for increases in interest rates.

Agribusiness and mining were also strengthened by neoliberal policies. Their importance grew as a result of strong Chinese demand for iron ore and soybeans in the 2000s, and of the explosion in commodity prices in speculative markets.

With this analysis, we wish to highlight how the power bloc, already structurally dominant since the 1980s, was strengthened in the wake of neoliberal policies, while the national State's role in fostering economic growth weakened. This political power structure was hegemonic in the 1990s and its strengthening prevented or hindered the attempts of transformation that occurred in the 2000s.

4. Lula Government and Power Structure: Conciliation or Confrontation?

Despite the failure of the neoliberal project, which was clearly visible in the early 2000s, as seen in high unemployment, exploding public debt, deficit in the trade balance and relative deindustrialization, the players of the hegemonic power bloc had already carried out a radical structural change of the Brazilian economy. Thirteen years of neoliberalism had put the country on a structural straitjacket. It became much harder to implement counteractive measures, even when the elections were apparently unfavorable to the established power bloc. The new elected government coerced or forced by circumstances, and perhaps even before the election, composed with – not against – the power bloc. Of course, we will never know if things could have been different; political articulation has become

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the central ability in any action to counter the interests that are deeply rooted in the structure of economic power.

The disruption of the State and its technical cadres – which had once made possible at least a semblance of planning – by the neoliberal 1990s era was extremely vigorous. Privatization eliminated the State's ability to intervene productively in the economy – among companies of some importance, only Petrobras remained, today under attack. The uncontrolled and unrestricted adhesion to the big oligopolistic transnational capital – which became mostly an importer of machinery, parts and components,[17] and also took over the strategic service sectors as well, including telecommunications and electricity – raised its power to respond with prices hikes to any glimmer of currency devaluation, as well its power to react to wage pressures through any kind of distributive policies. The rentiers of the large private banks,[18] the elite of former entrepreneurs and the large national or transnational companies with cash to spare hold the power to easily rebel against any attempt to lower the interest rates or the public debt that provide them with income and ensure their financial profits[19] – as indeed occurred in 2012–13. The large agribusinesses and mining companies, strengthened by international speculative commodity prices (which ensured the Brazilian trade surplus[20] until at least 2013 – offsetting the increase in imports of industrial parts and components), began to defend the old law of comparative advantages, while pumping their surplus financial funds in the rentier market. They also, obviously, did not want any fall in interest rates.

The strategy of the new government (2003–2010) was not to confront, but rather to conciliate with the power blocs, assuring them it would not interfere in the relevant variables as exchange and interest rates. At the same time, it sought to implement policies to resume economic growth (as of 2005), distribute income and reduce poverty, penetrating the existing gaps in the power structure: a delicate operation, to be sure, but a successful one in terms of social goals and of placing the country once again on the path to growth (at least until 2010).

To appease the rentier elite, the government appointed a banker to head the Central Bank, a former BankBoston executive, trusted by the national and international financial markets. He kept virtually the entire technical staff of the neoliberal era macroeconomic team, at least until 2005, when the Central Bank began focusing on a policy of "inflation targets" that practically guaranteed high interest rates.[21] To appease both big international productive capital and domestic capital, increasingly mere importers of capital goods, parts and components, the Central Bank continued with its policy of currency appreciation,[22] which would prevent the recovery of the domestic industry. The assurance of trade liberalization, together with currency appreciation, also served as a price control mechanism for the oligopolies while minimizing inflationary pressures.[23] Exporters of agricultural and mineral commodities could easily bear the overvalued exchange

rates because of the high global speculative prices. Thus, it was possible to accommodate interests, at least temporarily.

On the other hand, the government also carried out a comprehensive policy of income distribution through social programs, as well as a deliberate policy of raising the minimum wage (see Cardoso Jr. and Gimenez, 2011, chap. 6). The expansion of credit also contributed to increasing consumption. Economic growth resulting from the entire package of measures increased the average real income of society and reduced unemployment significantly (from 12.4% in 2003 to 5.4% in 2013). Economic growth (GDP) peaked at 7.5% in 2010 over 2009, with a real upper average of 4% per year since 2003. With the resulting rise in tax revenues, the net public debt fell from 60% of GDP in 2000 to 35% in 2013. Inflation rates remained stable at around 6% per year. The government managed to maintain primary fiscal surplus above 3% of GDP.

This performance was limited by the pact (the level of rates of exchange and interest) with the power bloc. This limitation was, perhaps, best manifest in the performance of the industrial sector (production and employment). It was the one that least benefited from the growth cycle, not to mention that it had become an importer of parts and components to be "assembled" in Brazil since the wave of neoliberal policies of 1990s: its revenues rose despite lower production as 20 years of overvalued exchange rates had their effect. While the imports index grew fivefold (100 to 500), the index of industrial production increased by 24% (from 100 to 124) between 2002 and 2013 (IBGE). The increase in industrial imports did not affect the trade balance only because of high international commodity prices which began to fall only in 2013, showing the fragility of being commodity-dependent. Fifty-five percent of Brazilian exports are commodities (9% oil and oil products, 14% minerals and 32% foodstuff, especially soybeans).

A new growth cycle was thus sustained, but without changing the economic foundations on which the power structure rested, in particular the redistribution of wealth in favor of rentiers and foreign speculative capital and the preservation of the profitability of an import dependent industrial sector through high exchange rates. The development project, although constantly criticized by economists representing financial institutions (even those who benefited from it), was carried forward, as long as it did not interfere with the high interest rates earned on the government bonds and the overvalued exchange rate. The criticism of the growing share of public long-term credit in the financial market as inflationary increased. Even with growth of 7.5% in 2010 pointing to something like 10% as a tendency in the first month under Rousseff's government, the economists of the private banking sector, already unhappy with the previous policies of growth, intensified their criticism by accusing it of "explosive inflation" which they attributed to "unnaturally" low unemployment, "above productivity" wage increases and growth "above potential GDP", all thanks to the government's populist policies.

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A heavy blow was struck by corruption charges (called "mensalão") that put many leaders of the Labor Party in jail. The result, without going into the specific of the corruption allegations themselves, was that political relations between the government and Congress broke down, opening up opportunities for the Power Bloc to resume direct control of policy by making it difficult for the government to govern.

5. New Government, Dilma Rousseff: Defeated by the Power Blocs

This ensured that the Rousseff government was not a continuation of the Lula government, especially with regard to economic growth and income distribution policies. The consequences of high interest rates and years of overvalued exchange rates now matured and historically low industrial growth combined with the global economic slowdown and the fall in commodity prices in 2012–13 exposed the fragility of the external accounts. The political crisis brought on by charges of corruption completed the picture. The power blocs had encircled the new government and this made its policy erratic.

Under such political pressure, the Rousseff government announced an increase in interest rates ensuring the policy of "inflation targeting" in 2011, in the beginning of her first semester in power. She also announced a cut in public spending to ensure the "credibility" of fiscal policy, mainly as it affected the Growth Action Program (focused on infrastructure projects) initiated by the previous government. These measures surprised its supporters and demonstrated the government's political subordination to the interests of rentiers. The economy plunged from a growth rate of 7.5% in 2010 to 2.7% in 2011. The government appeared to believe that, having placated the power bloc, it could still put the economy on growth path. It replaced the head of the Central Bank and initiated a policy to lower the interest rates on government bonds in order to force the private banks to give credit for investments at lower rates. It also devalued the currency (the dollar rose from R$ 1.50 to R$ 2.00) and announced tax cuts to productive enterprises. Naively, it believed that this would be enough for private investors to respond and change the dynamic axis of the economy, and for financial markets to calm down in the face of a guaranteed fiscal surplus. It also imagined that the private banks truly wanted to take on the role of public banks in long-term credit.

These measures on interest and exchange rates rattled the elites and they nearly succeeded in toppling the government and did succeed in forcing it to retreat. Low interest rates and devaluation hurt rentiers and productive capital (which had become an importer, as we have seen) and they fought back. Newspapers wrote incessantly about inflation rising explosively now that the government had abandoned the policy of "inflation targets" by

manipulating interest rates. As a result, the government once again raised interest rates and curbed currency devaluation. The economy plunged into low-growth mode, investments remained flat and the cuts in public spending worsened the situation.

Thus, a catastrophic scenario was conjured up to pave the way back to neoliberal policies. The increase during Lula of long-term credit of the BNDES, Caixa Econômica Federal e Banco do Brasil was criticized by private banks that wished to appropriate its resources which exceeded 51% of the total loans. Aiming, perhaps, at its eventual privatization, pressure was also exerted on Petrobras, the Brazilian oil company that had discovered in 2000 a huge oil reserves and became a strategic element in any forthcoming industrial policy.

The country almost went into technical recession in 2014 and dropped completely in 2015 into negative growth after new elections that put Rousseff again in reelection. The government found itself totally cornered. It had believed that it could continue placating the power bloc (with cuts in public spending) and at the same time to pursue an alternative policy that directly hurt rentiers and importers. Its biggest mistakes may have been to believe that after the cut in public spending entrepreneurs would invest and to leave its flank unprotected. The strategy was frustrated because it believed that economic growth would resume without massive government action. In 2016, a coup d'etat move Rousseff out of power and the new government imposed a destructive fiscal policy that resulted in a decrease of 7.3% of GDP in two years, an unemployment rise from 5% to 13% and the most destructive plan of social policies.

6. Conclusion – Overcome by the Power Block

We tried to show how the power blocs were structured and how they transformed in the trajectory of development of Brazil in its process of industrialization. From the outset, with important state participation as an organizer of the process and investor in the basic and infrastructure sectors, the country opened to the transnational capital and the high technology sectors, leaving to the private national industry a subordinate role of supplier of parts to this transnational industry.

The balance of payments and inflationary crisis of the 1980s demonstrated the fragility of this strategy in the face of the new relations of dependence that it created, now technological, mainly of the big transnational corporations installed in the most dynamic sectors. The crisis opened the space in the 1990s to the neoliberal policies of the Washington Consensus. This was seen as a new strategy to lead to Brazil's deeper insertion in world capitalism, in global value chains, expanding internal space for transnational capital. In this way, it dismantled the developmental structure, especially the State structure that had organized the process of industrialization to open

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space for transnational capital via privatization. By doing that, one imagined expanding the production chains in the country by deepening the internationalization of its industrial structure via Foreign Direct Investment in the country that was expected to be done by the transnational corporations.

The result was the opposite of what was desired. In the 1990s, transnational corporations underwent a process of global restructuring characterized by greater concentration and centralization of capital via crossborder mergers and acquisitions. Thus, instead of increasing their productive structure, they concentrated the control centers in the central countries and the production in certain productive plants in chosen places. In this process, instead of Brazil reinforcing its industry and thereby increasing the country's share in global production, the result was a deindustrialization process with loss of participation in the global structure.

The adoption of neoliberal policies served to dismantle the industrial productive structures that have being formed during the 30 years of industrialization, especially the State structure that supported it. On the other hand, it strengthened the power of the national speculative financial capital that benefits from the contractionary policies that raised the public debt and the interest rates that affect it. Attempts to resume development by more "developmental" governments in the 2000s by associating themselves with the power blocs that were strengthened during the liberal period were not successful given the power of these groups.

The strategy of appeasing the power blocs trusting in some sort of associated developmentalism showed its frailty. Productive transnational capital, together with international financial capital, with private national banks as their brokers, showed their political strength. Brazil today finds itself strapped to a condition of renewed dependence on commodity exports, undergoing now (as before) a process of deindustrialization and gradually losing the ability to become a global industrial player. The lessons that can be extracted from these experiences is that the alliance with the power blocks, centrally the rentiers, has completely failed. The Labor Party (in power between 2003 and 2015) in this strategic alliance, perhaps full of good intentions in implementing economic growth, social policies and income distribution, ended in destroying itself. The result is an unprecedented institutional and political crisis in Brazil.

Endnotes

1 Industrial GDP would only surpass agricultural GDP in the 1970s.

2 Brazil was part of the strategy of the large transnational companies as they occupied the Latin American markets. "… There is no doubt that Brazil's economic development after 1964 was deliberately geared towards seizing the opportunities that the new global strategy of the multinationals offered the country … [which served as an] "industrial warehouse" for several multinationals to penetrate more easily the markets of the countries of the Latin American…" (Singer, 1985: 92).

[3] External indebtedness, the oil crisis and rising international interest rates generated a crisis in the balance of payments that was resolved with maxidevaluations of the national currency vis-à-vis the dollar – which, given the great power of oligopolized of capital, created the enormous inflation rates of the 1980s.

[4] It was based on the idea of submitting to the "marketplace," to the flows of capital, "to the dynamics of the interests of developed economies" (Cardoso and Faletto, 1981, p. 26), as the future president who would lead the neoliberal reforms in Brazil stated at the time. See also Traspadini (1999).

[5] During the 1980s and 1990s, few were the years in which the State had no operating surplus. The deficits were high because of the high interest rates.

[6] In the early 1990s, the federal debt reached 50% of total financial assets (Belluzzo and Almeida, 2002, p. 192).

[7] "This adjustment allowed the corporate sector as a whole to adopt a patrimonial and rentier behavior" (Belluzzo and Almeida, 2002, p. 120). "Public debt then became the foundations of the banks' income, as intermediaries of 'financial money' (which replaced their function as 'financial intermediaries') and absorbers of the inflation tax" (Belluzzo and Almeida, 2002, p. 154).

[8] Gustavo Franco (Harvard), Pedro Malan (Berkeley), Edmar Bacha (Yale), Pércio Arida (MIT), Lara Resende (MIT).

[9] The "Washington Consensus" was "a consensus between the IMF, the World Bank and the U.S. Treasury about the 'right' policies for developing countries…" (Stiglitz, 2002, p. 43) which highlight the defense of neoliberal policies: free trade by decrease or elimination of all barriers (tariffs, customs and policies that manipulated exchange rates); freed incoming and outgoing financial flows; privatization of state-owned enterprises; and, a shift in the role of the State, from "developmentalist" to a regulatory type.

[10] Big transnational capital increases imports of parts and components that were previously manufactured here by domestic "satellite" companies. One also sees a process of modernization in some transnational corporations that are strategically strengthened here (automotive, heavy construction machinery).

[11] Without taking 1995 into account, when the base interest rate (Central Bank) was 53.38%, the average rate between 1996 and 2000 was 28.2% p.a.

[12] In nominal value, total public debt increased from around R$ 150 billion in 1995 to R$ 780 billion in 2002 and to R$ 913 billion in 2003 (58% of GDP).

[13] "Brazil's success in attracting foreign investment has not been translated into growth because most of these investments were not set to build new production capacity … but rather acquire existing assets" ("transfer of ownership") (Arbix and Laplane, 2002, p. 86). Arbix and Laplane show that almost 70% of total direct investment in Brazil from 1993 to 1998 went to mergers and acquisitions (Arbix and Laplane, 2002, p. 86). IEDI data also point in the same direction regarding the predominance of foreign direct investment for the same purpose: in 1991, out of US$ 730 million in foreign direct investment, 13.7% went to mergers and acquisitions. In 1994, this percentage jumped to 24.3% and reached 74% in 1998 (IEDI, 2000, p. 9).

[14] Between 1995 and 2000, intra-firm imports (between the head office and branches) of multinational companies grew by 91%. In the secondary sector, 56% of all imports represented intra-firm trade (Lacerda, 2004, pp. 109–10). To this must be added the fact that most of the vehicle imports, for instance, were carried out by manufacturers with factories in Brazil (Comin, 1998, p. 139).

[15] After displaying extraordinary performance throughout the 1970s (an average annual growth rate of 37.1%), manufactured goods presented a relatively poorer performance

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between 2000 and 2010 (average growth of 10.2% p.a.) than the other groups. Basic goods, especially, showed an extraordinary average annual growth rate in the same period (20.3%). The 1990s were the worst phase of Brazilian exports, insofar as all groups had a negative average annual growth of exports (Nassif, Feijó and Araújo, 2012).

[16] Brazil faced a "dramatic fall in the total added value of the manufacturing sector since the 1980s (from 31.3% to 14.6% in 2010). … The technological gap of the manufacturing sector as a whole has increased so much since the late 1990s that the 2008 figures lead us to draw the conclusion that the Brazilian economy has been characterized by signs of early de-industrialization and falling behind long-term path" (Nassif, Feijó and Araújo, 2012).

[17] In Brazil, 24% of industrial inputs were imported in 2013, with special emphasis on electronic components, auto parts, nonferrous metals, resins and synthetic fibers.

[18] In 2000, the five largest banks held 50% of the system's financial assets and the ten largest 62%. In 2013, the top five rose to 67.7% and the top ten to 77.8%, demonstrating how much banking is concentrated in Brazil.

[19] In 2013, financial institutions held 30.2% and corporate funds 21.7% of marketed public debt. Foreign investors held 17%.

[20] In 2013, staples accounted for 55% of exports. Together, ADM (formerly Archer Daniels Midland), Bunge and Cargill negotiated approximately 60% of soybean exports and crushed 60% of the grains for the domestic market.

[21] The actual average basic interest rate between 2002 and 2006 (first mandate of the new government), although lower than in the 1990s, remains around 11% p.a. Since 2007, real (off inflation) average basic interest rate fell from 7.5% p.a. to 5.3% p.a. in 2011.

[22] The exchange rate appreciated in real terms by nearly 25% between 2002 and 2013, or 2.7% per year.

[23] Between 2002 and 2013, inflation rates remained within the specified range for the first time since the adoption of the policy of "inflation targets" in 1999.

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