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Political Economy of the Coup d'État in Brazil

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Alexis Dantas*, **Elias Jabbour****

The aim of this paper is to demonstrate that the Brazilian political crisis that culminated in the impeachment of President Dilma Rousseff is not a direct result of the economic crisis, but a consequence of a broad coalition involving business groups, opposition parties and media with influence in the heart of the state apparatus. The formation of this conservative character of political coalition was part of a process to cut off positive results related to the growing role of the state in the economy and its consequence on employment, labor income and the welfare of Brazilian workers. The economic crisis, therefore, is an epiphenomenon of the political crisis, in the form of productive lockout (production and investments) with effect in a growing debt-to-GDP relation, rising inflation, level of unemployment and, especially, the negative GDP growth.

Keywords: political economy, political crisis, economics, entrepreneurship, coup d'etat.

Ekonomia polityczna zamachu stanu w Brazylii

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Celem artykułu jest wykazanie, że kryzys polityczny w Brazylii, którego kulminacja nastąpiła w momencie usunięcia z urzędu prezydent Dilmy Rousseff, nie jest bezpośrednim skutkiem kryzysu gospodarczego, lecz konsekwencją szerokiej koalicji grup biznesowych, partii opozycyjnych oraz mediów o wpływach w samym sercu aparatu państwowego. Koalicja polityczna nabrała tego konserwatywnego charakteru w ramach procesu niwelowania pozytywnych wyników związanych z rosnącą rolą państwa w gospodarce oraz jej wpływu na zatrudnienie, dochody siły roboczej oraz dobrobyt pracowników brazylijskich. Kryzys gospodarczy jest zatem epifenomenem kryzysu politycznego w postaci blokady produkcyjnej (produkcji i inwestycji), która doprowadziła do wzrostu wskaźnika długu do PKB, inflacji, bezrobocia, a zwłaszcza do ujemnego wzrostu PKB.

Słowa kluczowe: ekonomia polityczna, kryzys polityczny, ekonomia, przedsiębiorczość, zamach stanu.
JEL: N1

* **Alexis Dantas** – PhD, Department of Economic Evolution of the Economic Science Faculty of State University of Rio de Janeiro (DEE/FCE/UERJ).

** **Elias Jabbour** – PhD, Department of Economic Evolution of the Economic Science Faculty of State University of Rio de Janeiro (DEE/FCE/UERJ).

Correspondence address: State University of Rio de Janeiro (DEE/FCE/UERJ), UERJ – R. São Francisco Xavier, 524 – Sala 1006 A – Maracanã, Rio de Janeiro – RJ, 20550-900, Brazil; e-mail: alexis.dantas@gmail.com; eliasjabbour@terra.com.br.

1. Initial Remarks

A political crisis of unprecedented dimensions has recently led to the impeachment of Brazilian President Dilma Rousseff. Standard explanations sum up the question as the end of a political cycle caused by systemic corruption. In this stylized narrative, Lula and Rousseff governments were directly responsible for a chronic economic crisis whose root cause was the growing state intervention in the economy. This intervention reached its peak in 2012 with the guidelines attached to the "New Macroeconomic Matrix".

In fact, the country is experiencing the worst economic crisis in its history, with alarming inflation in 2015 and unemployment (GDP registered two consecutive years of decline of almost 4% per year and the Fiscal Debt/GDP ratio on the upward trajectory). It is precisely on the fiscal crisis that the main explanatory arguments are usually concentrated in the present political crisis for the mainstream economists. And the anchor for this type of argumentation is, in essence, an ultraliberal vision scattered in the Brazilian society. In this case, criminalizing the state is only the first step towards criminalizing politics itself.

On the contrary, we argue that the political crisis is the product of a process of approaching different groups of the Brazilian business class that gained momentum with the demonstrations of June 2013 as a response to the political construction since 2003 of a New Brazilian National Project with enormous consequences on the very structure of State intervention in the economy structured on creation of employment, increase of labor income and better living standards for Brazilian workers, with the economic crisis being an epiphenomenon.

In the next section, we will show that, despite the maintenance of the macroeconomic foundations established since 1999 (inflation targeting policy, for example), significant progress has been made in (a) economic growth, (b) rising incomes, (c) falling unemployment and (d) public investments. In addition, the figures presented in the section will corroborate our argument about the inexistence of objective conditions for an economic crisis of the magnitude that has occurred in Brazil since 2015. The last section includes some conclusions about the process as a whole.

2. Brazilian Economy Post-Lula: Continuity and Breakthrough

The crisis of the Brazilian Balance of Payments in January 1999 imposed the need for important changes in the conduct of local economic policy, considering the impossibility of continuing the model of *exchange rate anchor* as the basis of the 1994 Real Plan, which operated as its main foundation. With the necessary variation for a floating exchange rate regime, the inter-

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est rate began to operate as the basic inflation control variable, based on the adoption of the inflation targeting model.

In this context, fiscal policy plays a role of adjustment variable in the model – as the interest rate represents a financial expense, public debt may increase, and it would be necessary to obtain primary surpluses in order to prevent an explosive trajectory of public debt.

Despite the changes, the central idea that dominates the formation of economic policy is the same one that guides the management of the Real Plan, defining the relative price stability as a crucial determinant for the creation of an environment favorable to economic growth with competitiveness. In this case, according to Dantas (2013, pp. 67–68),

> As for the issue of economic growth, the combination of inflation target with an austere fiscal policy would, according to the model adopted, guarantee the economic stability required, offering to the economic agents a favorable scenario for investment decisions. The possibility to raise growth rates would ultimately result in an increased productivity of the factors of production, in a context that market mechanisms operate without interference, particularly with regard to stable relative prices and the conformation of a favorable environment in which competition would be increased in the economy (in particular external competition).

The beginning of Luís Inácio Lula da Silva's term in 2003 after his victory in the election with a large margin in 2002 did not bring changes in the guidelines of the economic policy, maintaining the tripod defined after 1999 (floating exchange rate, inflation targets and fiscal austerity), with emphasis on the independent performance of the Central Bank in the conduct of monetary policy and the Fiscal Responsibility Law. Indeed, the picture had already been defined before the election of 2002. The growing expectation of a political change because of the growing importance and influence of the Workers Party, and Lula's imminent victory, created a scenario of uncertainty and instability, mainly due to the highly speculative performance of financial agents. In this context, Lula guaranteed in an open letter the maintenance of the institutional stability and the basis of the economic policy (the so-called "Letter to the Brazilian People").

Figures 1 and 2 show the effective maintenance of the commitment assumed, including the first presidential term of Dilma Rousseff started in 2010. According to Figure 1, it can be observed that the primary result of the public sector presented surplus even during the years when there was a reduction in the rhythm of growth of economic activity, as in 2009 and 2014. Figure 2, in turn, indicates the stable behavior of inflation in the same years, always within the defined inflation.

Despite the continuity, however, an important rupture occurred, especially since the middle of Lula's first term with (a) the expansion of income transfer programs and (b) the creation of new fundamental mechanisms of social policies and economic development, in particular the policy of a real increase in the minimum wage and the creation of investment programs in infrastructure with a growing supply of credit, mainly through BNDES (National Bank for Economic and Social Development).

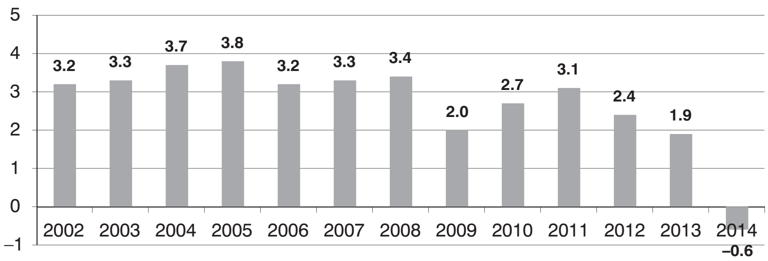

Fig. 1. Primary result of the public sector (% GDP) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

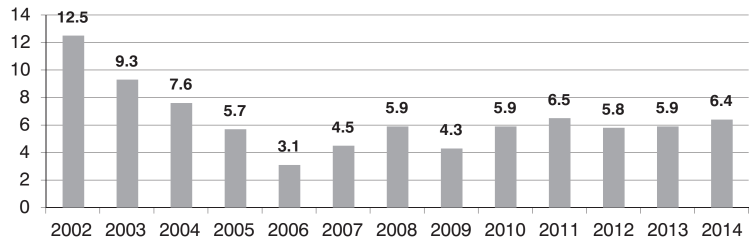

Fig. 2. Inflation rate – % – (IPCA) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

The results were evident. First, the combination of growth in transfer spending (with a central role for the "Bolsa Família" program) and, more importantly, the significant real increase in the minimum wage (and the wages as a whole as a direct consequence), which determined a drastic reduction in the number of people living in extreme poverty in the country, as well as a substantial improvement in income distribution. In addition, there was an effective increase in investments in the infrastructure sectors and in the loans provided by BNDES.

As shown in Figures 3 and 4, the real minimum wage increased by about 76% between 2002 and 2014, while the average real labor income increased by approximately 36% (2002 to 2013).

At the same time, BNDES expenditures were 5 times higher in 2014 than in 2002, with strong acceleration from 2008/09. Investments in infrastructure were 3.2 higher in 2013 compared to 2014 – Figures 5 and 6.

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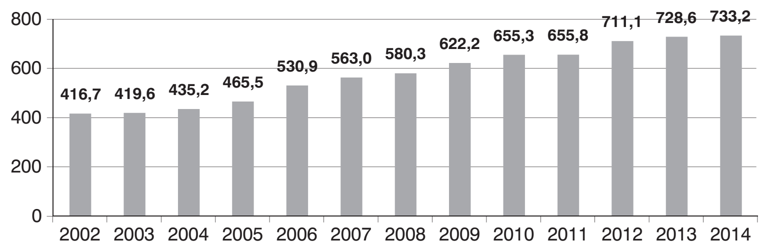

Fig. 3. Real minimum wage (R$) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

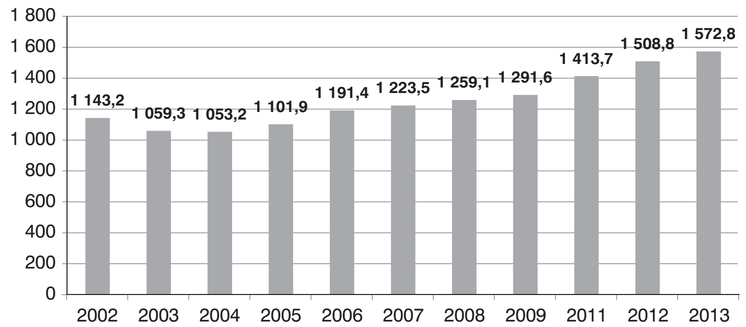

Fig. 4. Average real labor income (R$) – Brazil – 2002/13. Source: Ministry of Finance, Brazil – 2014.

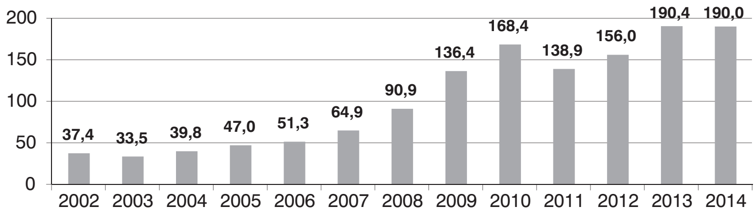

Fig. 5. BNDES loans (R$ Billions) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

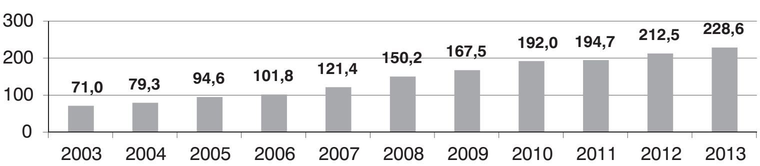

Fig. 6. Investments in infrastructure (R$ billions) – Brazil – 2002/13. Source: Ministry of Finance, Brazil – 2014.

Secondly, these combined factors inaugurated a new growth matrix for the Brazilian economy, whose fundamental pillar was an increase in the amount of wages and its impact on household consumption, but also with a significant increase in the rate of investment in Brazil. Figures 7 and 8 show the evolution of the amount of wages and household consumption in the period of analysis. Payroll grew by about 2/3 between 2002 and 2013, while household consumption recorded a positive growth rate between 2004 and 2014, especially up to 2010 (average growth of 4% per year between 2006 and 2014). As of 2011, this model started losing strength, despite maintaining always positive rates.

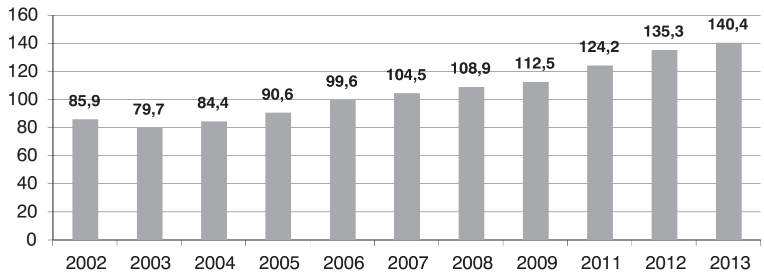

Fig. 7. Payroll (R$ billions) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

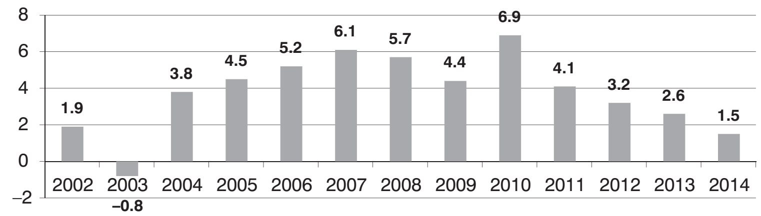

Fig. 8. Household consumption – Growth (%) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

Third, with the greatest growth rate in the Brazilian economy (particularly between 2004 and 2010), there was a significant reduction in the unemployment rate, which dropped from the double digit figure that marked the index from the 1990s to 4.8% at the end of 2014. It is also important to note that the Brazilian unemployment rate has shown a steady decline since the beginning of the first government of Luís Inácio Lula da Silva, with the exception of 2009, due to the international financial crisis, when it rose by 0.2% over the previous year (with a fall of 0.3% in GDP) – Figures 9 and 10.

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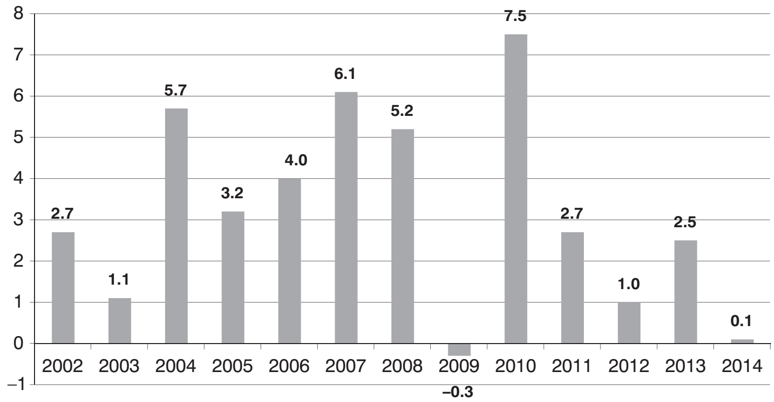

Fig. 9. GDP growth (%) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

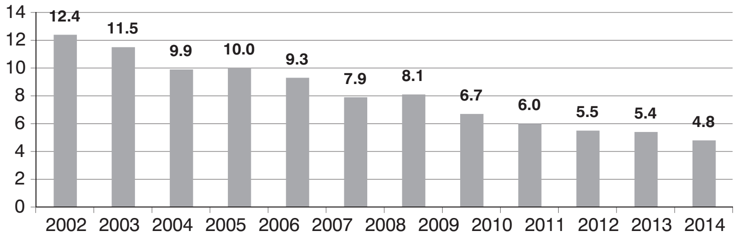

Fig. 10. Unemployment rate (%) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

Finally, it should be added that, even considering the real increase in the minimum wage and the real average income previously mentioned, the number of created formal jobs continued to grow strongly over the period, although this growth was clearly losing strength from 2012 to 2014 – see Figure 11.

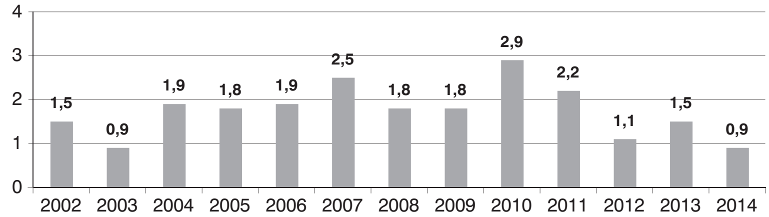

Fig. 11. Creation of formal jobs (millions) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

It should be noted, therefore, that the economic indicators in Brazil during that period did not indicate any tendency towards a more radical inflection of the performance, perhaps showing a need to change some economic policy decisions, mainly to deal with a possible increase in inflation (still difficult to predict until 2014 even with the increase to 6.41, near the top of the target, considering that there were expectations of rise). That was the scenario in that period, and it was increasingly clear that the rhythm of the growth of GDP was much lower after 2011. Considering the fiscal debt path, no important changes were observed until 2014, but with lower tax revenue expected due to lower GDP growth – far from a huge fiscal crisis announced mainly by the opposition in the presidential election debates and the big media.

Regarding the conditions of the Brazilian Balance of Payments, despite of the worsening of current account conditions, and the expectation of a continued decline in the commodity prices and their effects on Brazilian exports, the accumulated reserves (Figure 12) over the previous years guaranteed a comfortable situation and management measures, without any viable foreseeable external crisis (even considering the possibility and pre-announcements of loss of investment grade given to the country by international agencies of risk, which were increasingly questioned in the world in terms of credibility after the US financial crisis).

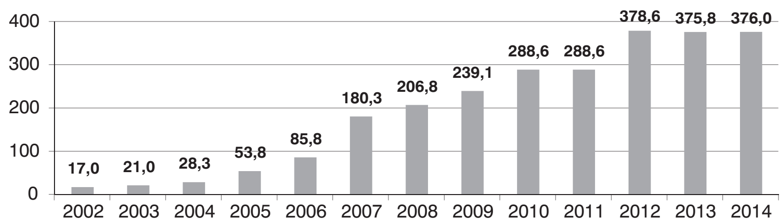

Fig. 12. International reserves (USD billions) – Brazil – 2002/14. Source: Ministry of Finance, Brazil – 2014.

However, one could observe a huge reversal in the Brazilian economic situation, especially characterized by a significant recession in 2015 (a 3.8% drop in GDP), a sharp increase of the inflationary process (the IPCA reached 10.7%) and at the same time, a rapid and significant deterioration of the fiscal result, both by the primary (the primary deficit rose to 1.9% of GDP) and, more significantly, by the nominal deficit, obviously leveraged by a strong rise in the basic interest rate of Brazil (public debt jumped from 33.7% in 2014 to 38.3% at the end of 2015). The immediate result was a rapid rise in the unemployment rate (reaching 6.8% in 2015) and growing popular demonstrations, aggravated by reports of politic corruption.

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An obvious question in this context is: how to explain the economic crisis that has become so deep in a short space of time, considering an absolutely distinct (effective and potential) picture by the middle of 2014? The answer is the fact of the loss of four presidential elections in sequence and the growing evidence of the impossibility of electoral victory of the neoliberal opposition project, especially of PSDB. A conservative alliance set up the day after the re-election of President Dilma Rousseff triggered the parliamentary coup explicitly supported by the judiciary and led up by the mainstream media.

3. Final Remarks

There is clear common sense in Brazil about the political crisis that led to the impeachment of President Dilma Rousseff. There is a recurrent *parti pris* in Brazil seeing the political crisis as a consequence of an economic crisis, which in turn has its most visible face in the fiscal crisis. If there is any point of truth in this statement, it must be found in the attitude that ranged from euphoria to extreme hostility on the part of the business community with the inducements indicated in the "New Macroeconomic Matrix" and tax exemptions attached to the policy of replacement of public investment by its private branch. The economic indicators of the Brazilian economy until 2014 do not serve as a basis for a convincing explanation of the causes of the political crisis.

The present fiscal crisis is the product of a deliberate action by the business community that, failing to respond to governmental inducements (through tax exemptions, for example), led a conservative coalition, determining a major economic crisis and creating objective conditions for the success of a Coup.

In fact, contrary to common sense, the economy has operated very well with state action in social policies. Everyone has won, although relatively the poorest have been more favored. Something that already alerted us is Kalecki's (1943, p. 327) quote that should compel us to reflect more deeply on the true essence of the present Brazilian crisis:

> (…) the maintenance of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Indeed, under a regime of capitalist full employment, the 'sack' would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under laissez-faire; and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests. But 'discipline in the factories' and 'political stability' are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral capital the 'normal' capitalist system.

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