

# Developmentalist policies in financialized economies: contradictions and impasses of the Brazilian case

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## Abstract

This paper discusses the applicability of economic policies and other developmentalist and new developmentalist governmental actions to financialized economies; that is, those that are subordinated to the interests of the financial sector and the rentier elite. It mobilizes the theoretical-methodological regulationist principles together with the contributions of Keynes and Kalecki for a historical and institutional macro-analysis of the growth regimes and their respective economic policy regimes. The structural and macrodynamic compatibility between these two levels of analysis is a necessary condition for the effectiveness of the fiscal and monetary policies inscribed in the new developmentalist agenda. The Brazilian case is analyzed as a notable example of institutional compatibility with rentier-financial accumulation and to the detriment of the accumulation of productive fixed capital, especially in the industrial sector. Although it began in the 1980s, Brazilian deindustrialization accelerated with financial liberalization, and cannot be reversed as long as the State remains bound to the financialization process. This paper presents indicators to show that, in financialized economies, national States lose autonomy in both the formulation of economic policy that is capable of establishing an adequate macroeconomic environment for investment, and in defining a national development strategy.

## 1. Introduction

“Every society has the conjuncture and the crises of its structure”

(Fernand Braudel)

The process of socioeconomic development is not a natural phenomenon governed by transhistoric and deterministic forces. It does not occur spontaneously through impersonal forces of supposedly efficient markets. Moreover, in capitalist economies, companies and markets organize themselves primarily and essentially to obtain profit and, consequently, they do not have, *ex ante*, developmentalist objectives for the social environment in which they operate.

This perspective puts the State and its institutions at the center of development issues. If institutions and organizations of the State do not assume their irreplaceable functions for development, who else could? As is known, there are innumerable challenges inherent to the pursuit of development. One is the maintenance of economic growth, with an equitable distribution of income, along trajectories that are sustainable enough to raise living standards. A key variable in this context is investment in productive fixed capital.

The Brazilian economy is a prisoner of a structural and macroeconomic phenomenon that prevents the acceleration of growth blocking the increase in the rate of accumulation of productive fixed capital. To elucidate this issue, various analyses have

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resorted to the concept of financialization, which is expressed by the existence of a macroeconomic and structural environment in which alternatives to productive investment are multiple, diversified, and more attractive in terms of liquidity, risk, and profitability than the immobilization of capital required by directly productive activities, which are the basis of the development of nations. Consequently, the owners of capital see themselves liberated from the loss of liquidity and the inherent risks in acquiring fixed assets, given that they can expand their equity through financial channels with safer returns in the short and medium term.

If it is considered that the essential objective of the owners of capital is its continual revaluation, the expansion of the initial value invested, and if this objective can be more quickly and easily achieved without the risks and uncertainties associated with the production and acquisition of capital and consumer goods, the resources available for the investment (i.e., the savings of companies and households) will preferentially be allocated to financial assets, regardless of the negative impacts that this decision may have at the macroeconomic level. Among these impacts, of particular note is low and unstable economic growth, the increased frequency of financial crises, rising unemployment rates, increased personal and functional concentration of income, and the consequent deterioration of public finances, either due to the fall in tax revenues or the increase in the State's financial expenses.

In every capitalist economy that has a sufficient degree of financial development, the alternatives to investment are already present, as they make up the reproductive cycles of monetary and financial capital. However, when they reach levels that impede the sustainable growth of economies due to the hindering of or the insufficient increase in the rate of accumulation of productive fixed capital, financialization is conceptually characterized as an economic phenomenon and acquires its theoretical status as a concept and relevant object of research.

In this environment, the revaluation of capital through financial assets derived from public and private indebtedness reaches magnitudes that significantly increase the economic and political power of the banking and finance sector, the rentier elites, and owners of capital in general, compared to the other sectors of the economy. Consequently, one of its most serious implications for socioeconomic development is the capture of national States by the interests of high finance, which begin influencing economic policy and the definition of the public budget, despite the needs of other sectors of the economy. In a second stage, rentier-patrimonial accumulation tends to advance over the provision of public services such as health, education, social security, etc., thereby reducing or suppressing them in favor of private provision — the social policy financialization stage.<sup>3</sup>

Based on Keynesian theoretical foundations, it can be argued that the financialization processes elevate the preference for the liquidity of economic agents to a paroxysm, thus reducing the effectiveness or even canceling the expected effects of fiscal, monetary, and exchange rate policies. Consequently, this can promote consumption expansion without providing the same boost to investment, which leads to the substitution of productive savings (those destined to the formation of fixed capital of companies, which is capable of creating new assets) with unproductive savings (those invested in the transfers of ownership of existing assets, without creation of new assets). Therefore, in the aggregate plan, financialization is responsible for the low investment and saving rates of the economies that are subject to it.

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<sup>3</sup> Problem explained in LAVINAS (2017).

When the analytical perspective turns to the problems of socioeconomic development, the most serious microeconomic and sectorial implications of financialization are revealed. At the corporate level, it transforms management practices, redirecting them toward the objectives of creating maximum value for the benefit of owners and shareholders — even if it is necessary to reduce the rate of **accumulation of fixed capital in order to raise profit rates, and also through non-operating revenues** (the so-called shareholder value revolution). At the sectorial level, it subjects the directly productive sectors, such as industry, to the pressures and profitability requirements of the banking and finance sector. More precisely, the actual reference profitability for investments comes to be determined by the interests of the financial and rentier revaluation of capital, and not by the characteristics specific to the operations and activities of non-financial companies. Consequently, it is a phenomenon that establishes and reproduces new structural limits to the economic and social development of nations. In summary, developmentalist or new developmentalist policies may not have the expected effectiveness in a macroeconomic environment already provided with an institutional compatibility for rentier-financial accumulation. The recent Brazilian experience seems to illustrate this.

Our objective in this work was, therefore, twofold: a) to theoretically discuss the existence of modes of regulation that promote or block the development process; and b) to focus on the case of Brazil. For this, besides this introduction, the article is composed of three more sections. Section 2 explains the theoretical-methodological foundations applied to the issue in question. Section 3 presents definitions of the concepts of **economic policy regime** and **growth and accumulation regime**. The different combinations between these two institutional categories determine the main macroeconomic regularities that, at the analysis level, are referred to as a **mode of macroeconomic regulation** or simply a **mode of regulation**. In this context, it becomes possible to consider the existence of combinations capable of promoting or, on the contrary, blocking the process of social and economic development. The need to analyze structural factors that respond for the macroeconomic performance and not, as is the custom, to focus only on the inadequacy of a given economic policy, is, therefore, inferred. The Brazilian case is analyzed in section 4. Section 5 concludes the main results and provides a prognosis of the challenges of Brazilian development, now under a government that — even more explicitly and broadly — acts as an institutional prosecutor at the service of the interests of high finance and rentier-patrimonial accumulation.

## **2. Institutional and macroeconomic regularities: the structure determines the conjuncture**

Institutions create rules and regularities in the evolution of aggregated production and demand, and they are the prerequisite for the insertion of the economic theory itself into the concrete/real of existing economies, which operate on the basis of institutional structures that are potentially capable of providing markets with density and efficiency, socializing information and individual and collective behavior, without the economic agents needing to know the logic and nature of the current economic model.<sup>4</sup> Without being able to prevent the emergence of endogenous crises, institutional structures respond

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<sup>4</sup>A theoretical assumption that deviates from the handling of the rational expectations of the so-called new classics is precisely of the belief that economic agents would be able to know the characteristics of the economic models instituted, and then anticipate or even nullify the expected effects of the economic policies.

for the particular characteristics of periods of growth and recession, with their inherently cyclical dynamics.

## 2.1 Theoretical-methodological foundations: macroeconomic regulation

At the level of the regulationist analyses, this institutional architecture — substrate of the economic micro-, meso-, and macro-regularities — is known as a **mode of regulation**.<sup>5</sup> The term, which is conceptual in nature, corresponds to the individual and collective procedures as a whole, coordinated through institutions, which are potentially capable of establishing and reproducing economic regularities that, since they are dynamically compatible, lead to the emergence of a **regime of economic growth and capital accumulation**.

Despite macroeconomic theory in its Keynesian, Kaleckian, and Kaldorian forms expressing several of these macrodynamic regularities, such as those represented by the principle of effective demand and by the preference for liquidity in its fundamental consequences for economic growth, there are institutional configurations that hamper or even block the process of accumulation. When this occurs, the economic policy of managing aggregate demand does not have the expected macroeconomic effects. In this case, the ineffectiveness of the economic policy must be attributed to its incompatibility with the institutional characteristics that reproduce the current regime of accumulation.

This is the situation of economies subordinated to the interests of rentier-patrimonial or financialized accumulation, as observed in the current Brazilian economy. National States lose the autonomy to formulate economic policies based on Keynesian theory, and they are pressed to practice fiscal and monetary management in accordance with the profitability expectations of the financial markets. Without freedom to define the public budget according to social demands and the directly productive sectors, they are unable to create the institutional conditions for the efficient application of economic development policies and strategies. In their place, without the necessary theoretical foundation, are austerity policies and neoliberal programs that block the rate of capital accumulation and keep economies in trajectories of low and unstable economic growth, as well as increasing the frequency of financial crises (see BOYER, 2015).

Five major areas of macroeconomic regulation are analytically delimited by their implications for the dynamics of capital accumulation and, consequently, for the trajectories of economic growth. These areas, or **institutional forms (IFs)**, are the components of the mode of regulation and are shaped through the conjunction of public and private institutions, under the confluence of political forces representative of the interests of classes and sectors of economic activity. They are: a) **international insertion** — configuration of national economies with the world economy through foreign trade channels and capital flows; b) **competition** — market structures, varying between the most competitive and the oligopolistic; c) **monetary-financial regime** — all the

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<sup>5</sup>It is important not to confuse the concept of regulation developed by the French regulation school with the concept of **regularization**, which refers to the deliberate actions of the State to stimulate, prevent, or discipline economic behavior through specific legislation. *Regulation Theory*, which has a micro and sectorial focus, provides the theoretical foundations of the so-called regulatory agencies, and uses it in this second sense, and, therefore, it should have been translated more appropriately as a theory of regularization. Regularization should be understood as a moment of macroeconomic regulation, but it is never reduced to the forms of public intervention. Anthropologically, it is known that even primitive, stateless societies had forms of regulation, as a necessary condition for the coherence of economic activities and social cohesion of the human groups involved.

organizations and institutions that establish the regularities between the financial circulation and the productive system; d) **State** — institutions and organizations that codify the relationships between the public sector and the private sector, establishing regularities in the evolution of fiscal revenues and expenditures; and (e) the **wage relation** — the institutionalized form of the relations between capital and wage labor, codifying direct wages and indirect wages, workforce management systems, and the possibility of sharing productivity gains.

These five IFs are articulated throughout history and in different geographical spaces, in accordance with a certain hierarchy and complementarity. It is said that one institutional form is dominant or hierarchically superior to another when its evolution and transformation is capable of imposing evolution and transformation on the other IFs.

In Chapter 18 of *General Theory*, Keynes takes as given the productive and institutional structures: the state of technology, the degree of competition, and the determinants of the distribution of national income. This means that, for analytical purposes, Keynes assumed that the configurations of the five IFs could be considered to be stable. In the words of the author, "this does not mean that we assume these factors to be constant, but simply that, at this moment and in this context, we refrain from analyzing or even taking into account the consequences of their variations." (KEYNES, p.166).

However, for an analysis that covers historical periods that include changes in accumulation regimes and the respective economic policy regimes, new configurations for the five IFs emerge, and their effects on the dynamics of production in response to changes in effective demand need to be understood. This analytical viewpoint enables positioning of the Keynesian economic policy and the liberal orthodoxy in their interrelationships with the five IFs, detecting both the constraints that the mode of regulation imposes on them, and the institutional conditions that enable their structural transformation in moments of crisis or of obstacles to the process of growth and capital accumulation. Thus, as the regulatory approach seeks to explain the market mechanisms that must be satisfied or supplanted by the collective action inscribed in the social mediations (AGLIETTA, 1997, p. 421), the five IFs that collectively form the mode of regulation are part of a meso-economic level of analysis.

## 2.2 Elasticities and institutional configurations

The relevant lesson, methodologically and theoretically, refers to the fact that **the validity domain of certain macroeconomic relationships inevitably coincides with the validity domain of the existing social institutions**. Macro-regularities depend on particular structural conditions, but they change over time. It is a basic theoretical principle that calls into question the universalizing intention of the macroeconomic models derived from neoclassical Walrasian orthodoxy. In this context, the theoretical relevance of the concept of institutional form is in the empirical finding that the IFs enable the derivation of macroeconomic relations endowed with a certain statistical permanence. And from the moment they acquire stable configurations, they structure a certain **mode of macroeconomic regulation**.

A given stable configuration of the IFs then becomes the generating matrix of a stabilized mode of regulation that, from the analytical viewpoint, can be expressed by a particular macroeconomic model. In operational terms, the configurations of the IFs respond for the magnitudes of the values and signs of the elasticities among the macroeconomic variables that define the regime of growth and capital accumulation. If

the institutional configurations change, the elasticities tend to change as well, and this may problematize the current economic policy, making its effects possibly even contrary to that predicted by the macroeconomic theory that it is founded on.

As an example, consider the taxonomy of the growth regimes according to structuralist macroeconomic theory. The profit-led, wage-led, export-led, finance-led, or even finance-blocked growth regimes result from particular configurations of the five IFs, and although conditioned by the fiscal and monetary policies, they are not determined by them. From this perspective, the explanations for the stagflation of the 1970s — which led to the monetarist and new classical orthodoxy disqualifying the Keynesian policies of the “glorious thirty years” — are not theoretically satisfactory, because they do not explain the structural causes of the crisis of the post-war accumulation regime. The attempts at explanation are invariably centered on the exogenous shocks (1973 energy shock) and the alleged errors of Keynesian policies. They have in common the fact that they are derived from an approach that is completely unconnected to the historicity inherent to the accumulation regimes, and remain oblivious to the institutional transformations that have problematized the structural links between the Keynesian policy of aggregate demand management and the Fordist mode of regulation.

The occurrence of patterns of stable macroeconomic evolution at certain times, and the regimes of growth or accumulation are the result of partial levels of macroeconomic regulation that are vulnerable to the action of history and, therefore, subject to crises and endogenous structural transformations. The effectiveness of the economic policy is dependent on the degree to which it reflects the macrodynamic needs of capital accumulation, contributing to reproduce the growth regime. There is no universal economic policy valid for all growth regimes, regardless of their institutional, historical, and geographically situated specificities — a perspective that is difficult to be accepted by current orthodox macroeconomics, which is stuck to its pre-Keynesian theoretical assumptions and incapable not only of consistently explaining structural crises, but also of proposing effective measures to overcome them.<sup>6</sup>

### 2.3 The concept of an economic policy regime

An economic policy regime is defined by a hegemonic bloc, by the central objective it pursues, and by the instruments and bodies responsible for formulating and implementing fiscal and monetary policies (Boyer, 2015). Long-term historical studies and international comparisons have provided essential insights into the economic policy regime. Firstly, it must be compatible and, more frequently, complement the mode of development (result of the association between the mode of regulation and its corresponding growth regime) and the nature of the political regime. According to Boyer (2015, p.181), **the economic policy regime and the political regime correspond to a hegemonic bloc.**<sup>7</sup> Table 1 shows two types of economic policy regime: Keynesian and the liberal-monetarist. The latter is the one in force in the current Brazilian economy.

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<sup>6</sup>The explanations for the crises of 1929, the stagflation of the 1970s, and the subprime crisis of 2008 in the US economy, through exogenous shocks or economic policy errors, are emblematic examples of the epistemological obstacles — in the Bachelardian definition — maintained and reproduced by the unhistorical analyses of mainstream macroeconomics.

<sup>7</sup>According to this view, the so-called “economic policy triumvirate” (inflation targets, floating exchange rate, and generation of permanent primary fiscal surpluses) is one of the main components of the

The first modality is the **regime of Keynesian-developmental economic policy**, in which fiscal and monetary policies seek to stabilize the level of economic activity and maintain full employment. For this it develops strong progressiveness of the taxation and an ample social security system.

The second modality corresponds to **the neoliberal-monetarist economic policy regime**, which pursues price stability beyond the search for arbitration between inflation and unemployment. Under this regime, fiscal policy is considered to be ineffective, and monetary policy must be entrusted to central banks that are independent of the political sphere. In this respect, the new classical<sup>8</sup> economy spreads the idea that everything boils down to the re-establishing of competition and market incentives, which leads to the transformation of social protection systems from welfare to workfare. For Boyer, it is clear that wage earners are outside the hegemonic bloc, and are now under the control and leadership of financial capital. Keynesian economic policies are dismissed as erroneous, as alleged generators of fiscal imbalances and other macroeconomic distortions (without these positions having ever been empirically confirmed in studies by followers of the orthodoxy).

In the regulationist works of Théret (1992) and Lordon (2002), there are two institutional forms of economic policy:

- a) **The economic policy regime** — it is one of the parts of the current mode of regulation. Alongside the other institutional forms, it contributes to reproducing the structures of capital accumulation, while also being validated by these. In this context, the effectiveness of the economic policy depends on the extent to which it expresses the needs and the specific characteristics of the macroeconomic mode of regulation.
- b) **The regime of economic policy transition** — economic policy is also a feature of the intervention of the State in the sense of managing the socioeconomic space in situations of crisis or the blocking of capital accumulation. From the diagnosis of destabilization of the mode of regulation, the economic policy can anticipate new regularities and favor the emergence of new IFs.

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institutionalized economic policy regime for and by the interests of the banking and finance sector — as a hegemonic sector — in an economy financialized by the income from interest.

<sup>8</sup> With Robert Lucas and Thomas Sargent from the Chicago School among its proponent authors.

Table 1. Economic policy regimes: characteristics during periods of stability and crisis

Economic policy regimes		Keynesian-developmental	Monetarist-neoliberal
Characteristics			
Stability Periods	Type of economic policy	<ul style="list-style-type: none"> <li>▪ aggregate demand management policy</li> <li>▪ fiscal progressivity</li> <li>▪ social Security</li> </ul>	<ul style="list-style-type: none"> <li>▪ monetarist policy</li> <li>▪ market incentives</li> </ul>
	hierarchy of institutional forms	<ul style="list-style-type: none"> <li>▪ implied hegemony of wage earners, agreed upon with industrial capital</li> </ul>	<ul style="list-style-type: none"> <li>▪ hegemony of financial capital</li> </ul>
	degree and type of democracy	<ul style="list-style-type: none"> <li>▪ encompassing political coalition</li> </ul>	<ul style="list-style-type: none"> <li>▪ capture of the State by powerful groups</li> </ul>
Periods of crisis	reform strategy	<ul style="list-style-type: none"> <li>▪ reinforcement of public intervention</li> <li>▪ income policies</li> <li>▪ indicative planning</li> <li>▪ industrial policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ privatizations</li> <li>▪ liberalization</li> <li>▪ openness to global competition</li> </ul>

Source: own elaboration, inspired by Boyer (2015, Fig. 24, p.181).

It is in this sense that the State emerges as an institution superior to other institutions, because it has political power that, although limited, is able to transform them. The State manifests itself both as an apparatus inscribed in the structures of the mode of regulation, and as an external point of support, from which it is possible to act upon the latter. In this context, as Lordon (2002) observed, the **economic policy regime** can be defined as being constituted based on the following elements:

- **Forms of intervention** — these regroup the instruments manipulated in the frameworks of the regime's economic policy: public budget, currency, exchange, income policy, etc.;
- **Institutional intervention framework** — refers to the nature of the organs or the agents responsible for the design and/or directing of the economic policy: national and international agency, ministries, etc. The definition of the institutional framework also includes examining the structure of the State apparatus, detailing the attributions of powers, the doctrine-forming authorities, or the bearers of legitimacy, etc.;
- **Validation conditions** — refers to the importance of the interaction between the representations implicitly or explicitly conveyed by the economic policy and the private agents that are its object.
- **Interface with the mode of regulation** — concerns the need for the connections of the economic policy with the institutionalized commitments incorporated into the other components of the mode of regulation. A multiplicity of configurations is possible, including those in which economic policy can be exercised without

significant effects on the **institutionalized commitments**, and the cases in which it can, deliberately or not, promote its dismantling.

One of the many analytical consequences that can be drawn from these theoretical considerations concerns the fact that the breakdown of a growth regime inevitably leads to crisis in the economic policy regime that corresponds to it.

### **3. Economic policy regimes and growth regimes from a historical perspective: pro and antidevelopment configurations**

One of the theoretical foundations that justifies government interventions for socioeconomic development is derived from the rationality inherent to mercantile relationships. An economy structured for and by the exchange value (i.e., for the obtaining of mercantile profit), is not characterized, *ex ante*, as presenting social or economic development objectives. The improvement of living conditions for the people — resulting from business activities following the private commercial logic — can only arise as a collateral effect, a derived consequence, not deliberate or, technically, as a positive externality.<sup>9</sup> It is not up to individual profit-optimizing entrepreneurs to be essentially geared toward national economic development objectives, although the pre-existence of a macroeconomic environment subjected to trajectories of sustainable economic growth may be conducive to the expected profitability of their investments.

Corporate investment decisions are based on criteria regarding the expected return on capital immobilized in productive activities, which presupposes the prior existence of people with the ability to pay and, consequently, who are employed in productive activities. Here we are clearly faced with a tautological argument, which brings us back to the vicious circle of poverty. Companies are open entities, and investments are made not to provide income and employment for societies, but because entrepreneurs — based on profit expectations — decide to make them. Therefore, business objectives do not always coincide — either in time or in geographical space — with social needs.

Development objectives that involve concerns about expansion of output, employment, and distribution of income and wealth, can only be properly and legitimately championed by national States. The idea that these objectives could be achieved exclusively by market forces — leaving to the State only the functions of guaranteeing social order and property rights — is mistaken and has been disproven by the historical experience of the development of nations. This perspective puts the State and its institutions at the center of development issues, as its inductive pole, and not as a supporting actor, given that it has various social and economic functions that cannot be transferred to the market.<sup>10</sup>

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<sup>9</sup>In this context, the Smithian view of the "invisible hand" of the market may raise doubts as to its significance and its implications for public sector roles in the process of socioeconomic development. As an expression of the possibility of global or macroeconomic coherence of capitalist economies, based on the compatibility of individual mercantile behaviors and interests, this metaphor of Smith does not mean that this classical economist would have considered the actions of the "visible hand" of the State to be unnecessary. Only a reductionist and liberal-neoclassical reading of *The Wealth of Nations* would lead to this interpretation. Smith was fully aware of the limits of the market in the process of the development of nations, and listed various moments when the State should act; for example, in the issue of education and monopolies.

<sup>10</sup> Even if this assertion were considered to be true, from the epistemological viewpoint one would have to ask oneself about the chronological time — years, decades, etc. — necessary for a country to begin catching up through only the functioning of free and competitive markets, dispensing with State policies for

### **3.1 Economic policy as the "steering wheel" and the regime of accumulation as the "engine"**

The formulation and implementation of economic policy presupposes not only the governmental institutions collectively that it responds for. Sectors of economic activity and other social actors express their demands through the institutional practices of representative democracy or through the political pressures that they exercise directly or indirectly over the State apparatus. In this context, there is no neutrality of economic policy, in the sense that its formatting and implementation could represent and address — homogeneously or in equivalence of effects — all the interests and needs of social sectors and classes. Economic policies normally impose higher financial costs on certain sectors than on others. But the greatest problem for development occurs when its effects undermine productive sectors that are fundamental to scientific-technological innovations and, consequently, to productivity gains, as is the case in industry. By raising the political power of the banking and finance sector and of the rentier elites in relation to other sectors of economic activity, the processes of financialization lead to the capture of national States by the interests of rentier-patrimonial accumulation. Fiscal, exchange, and monetary policies start being formatted in accordance with the revaluation of capital in this sector. Hence the resistance of its controllers and representatives to the implementation of industrial policies or national development strategies. At various moments and in various institutional procedures, these actions of the State conflict with their interests and conveniences; for example, exchange controls and interest rate reductions in accordance with the needs of industrial investments.

#### **3.1.1 Keynesian policy and demand-led growth regimes**

The historical analyses and international comparisons developed in regulationist studies have shown that the success of the Keynesian policy of aggregate demand management depended on a particular institutional architecture: international insertion under the rules of the Bretton Woods Agreement; monetary-financial regime with credit currency; State inscribed in the cycle of accumulation and distribution, thereby allowing the diffusion of welfare-state structures; oligopolistic competition under strong trade protectionism; and wage relation based on the Fordist social commitment, which established the connection between wages and productivity gains. The wage relation was the hierarchically dominant institutional form and the main axis of industrial accumulation that marked this period. Under these macroeconomic and structural conditions, the growth and accumulation regimes classified as Fordist were consolidated, and the intensive accumulation of capital with mass consumption was one of the results.<sup>11</sup>

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development. And in societies in which there are Democratic States of Law, it would be contradictory, not to mention socially criminal, to wait for the spontaneous action of the markets to promote growth, distribute income, and overcome crises.

<sup>11</sup>It could be argued that the competition between the Western capitalist bloc and the Soviet bloc in the cold war period was one of the political conditions for the establishment of welfare state structures in OECD countries, and their incomplete experiments in peripheral countries. In an intense ideological — not only bellicose and economic — competition with the former USSR, the capitalist bloc had to show the world its success also in social terms. In other words, capitalism at that time could not be "wrong" in the social sphere. This is no longer the case for today's financialized capitalism, in which recessions are deliberately provoked by governments, with enormous social costs, including to force workers, unions, and middle classes to subject themselves to pre-Keynesian economic policies and measures, such as fiscal austerity

Another of its important characteristics corresponds to the forms of regulation of finances. These remained — throughout the "glorious thirty"<sup>12</sup> years of expansion (1945–1975) — at the service of economic development. However, from 1968 onward, the fall in productivity gains directly affected the centrality of the Fordist wage relation and began a period of great macroeconomic and structural difficulties, highlighting in the conjunctural plan the emergence of the stagflation that would provide an empirical basis for the questions about the early versions of the Phillips curve. Consequently, the success of the policy of aggregate demand management — based on Keynesian theoretical assumptions — can be explained by the macrodynamic compatibility it maintained with the macroeconomic regularities of the Fordist regime of accumulation. When this regime went into crisis, the same active fiscal and monetary policy measures no longer had the expected effect on inflation and unemployment, because the productive and distributive structures no longer reproduced the same macroeconomic regularities that were successful in the Golden Age.

### **3.1.2 Keynesian policy and accumulation regimes subordinated to finance**

In financialized accumulation regimes (in the finance-led and finance-blocked growth regime variants), the IFs that are hierarchically dominant or superior are the international insertion and the monetary-financial regime. In this current institutional architecture consolidated in Brazil and in various countries, the State and wage relation become hierarchically subordinated IFs.

A corollary of the argumentation developed in the preceding section can then be considered. Policies to stimulate aggregate demand, which involve active fiscal policy measures, start to be questioned by orthodox Macroeconomics, because they do not respond to the needs of the growth regimes subordinated to the rentier-patrimonial revaluation of capital. Studies on this issue are unanimous in stating that, in financialized economies, national States lose autonomy to formulate economic policies. National development strategies are cleared from the political agenda, because governments are pressed to adopt economic models that are convenient to the financial markets and not to the needs of socioeconomic development.

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policies and institutional reforms that reduce wage costs through the precariousness of employment relations.

<sup>12</sup> Expression coined by Jean Fourastié, in the work of Lipietz (1991).

Table 2. Economic policy regimes and economic theories

Economic theories Economic policy regime	Neoclassical-Walrasian or Orthodox	Keynesian-developmental
Monetary policy	<ul style="list-style-type: none"> <li>▪ focused on inflation control (inflation target)</li> <li>▪ currency and long-term interest rate neutrality</li> <li>▪ under the management of independent central banks</li> </ul>	<ul style="list-style-type: none"> <li>▪ liquidity management and credit incentives</li> <li>▪ non-neutrality of Money</li> <li>▪ should also contribute to full employment</li> </ul>
Fiscal policy	<ul style="list-style-type: none"> <li>▪ ineffective (crowding-out)</li> <li>▪ under financialized economies, it becomes a means of generating cash for the central government</li> </ul>	<ul style="list-style-type: none"> <li>▪ effective demand management (crowding-in)</li> <li>▪ under demand-led growth regimes, an effective tool to stimulate the level of activity and promote full employment</li> </ul>
Exchange policy	<ul style="list-style-type: none"> <li>▪ determined by the financial market in floating exchange rate regimes</li> </ul>	<ul style="list-style-type: none"> <li>▪ exchange controls and capital flows are necessary to promote industrial development</li> </ul>
Trade and financial liberalization	<ul style="list-style-type: none"> <li>▪ priority to high financial mobility and the rentier accumulation of short-term capital</li> </ul>	<ul style="list-style-type: none"> <li>▪ should be linked to a national economic development strategy</li> </ul>
Government social spending	<ul style="list-style-type: none"> <li>▪ minimization of the social State to favor rentier and financial accumulation based on public and private indebtedness</li> </ul>	<ul style="list-style-type: none"> <li>▪ justification of the power to tax</li> <li>▪ they are the expenditures of legitimacy of every democratic State of Law (Welfare)</li> </ul>
Hegemonic bloc	<ul style="list-style-type: none"> <li>▪ led by bank-financial capital</li> </ul>	<ul style="list-style-type: none"> <li>▪ structured on the basis of the political pact between industrial capital and wage labor</li> </ul>

Source: own elaboration.

Table 2 compares the economic policy regimes derived from orthodox (neoclassical-Walrasian) economic theory with those proposed by the theories underlying the active policies of the State to promote socioeconomic growth and development (Keynesian-developmental).

Consequently, the obstacles to the adoption of developmentalist policies or to counter-cyclical government actions are structural and, therefore, remain subject to criticism from sectors whose orthodox policies are part of the economic policy regimes that are most convenient to them in terms of their already consolidated market positions. In a relevant macroeconomic theory of development, if price and financial stability should not be sacrificed, it also should not be chosen as the single or most important objective to be achieved by the economic policy. Other equally fundamental objectives must be recognized and added; for example:

a) seeking full use of the factors of production and bringing the economy to full productive capacity — otherwise, new investments in their expansion would not be justified. In short, economic policy must provide an adequate environment for the accumulation of productive fixed capital and not focus on the conveniences of rentier-financial accumulation centered on a short-term outlook;

b) providing the structural conditions for the sustainable improvement of the living conditions of the people, because without this there is no stable consumer market and, therefore, no effective demand capable of stimulating investment and economic growth;

c) seeking to reconcile the liquidity needs of savers and owners of capital with the need to immobilize resources in productive activities that generate employment and income — otherwise, the structural changes essential to the process of socioeconomic development will not occur.

#### 4. The Brazilian case: a regime of accumulation inappropriate for developmentalist policies

“Keeping capital in a hegemonic position and the working class in a subordinate position is a historical constant in relation to the theory and practice of the Brazilian State. The variations that have occurred relate to emphasis or style.”

(Carlos A. Afonso; Herbert de Souza, 1977)

The Brazilian case is particularly notable due to being an example of compatibility in favor of short-term financial accumulation, with a high share from interest income and to the detriment of the industrial sector. The institutional structures that support and reproduce the growth regime were constructed — from the beginning of the 1990s onward — according to the interests of high finance, and were secondary to the directly productive sectors — a characteristic that remained throughout the governments of Fernando Henrique Cardoso (FHC), Lula, and Dilma, despite the differences that separate them. In this context, the resulting macroeconomic environment was much more favorable to rentier and patrimonial accumulation than to the accumulation of productive fixed capital.

And this is the main reason for the continuation of a trajectory of low and unstable economic growth for more than three consecutive decades. The results of this study let it be concluded that the success of developmentalist policies — derived from the Keynesian legacy — presupposes a new institutionality; that is, a new growth regime centered on industrial expansion.

##### 4.1 Insertion of the Brazilian Economy into Financial Capitalism<sup>13</sup>

Since the last quarter of the twentieth century, capitalism has experienced a rentier phase, in which the imperatives of capital as property have overlapped the imperatives of capital as an element functioning in the production of goods and services (PAULANI, 2016). This so-called **financialization** is the most well-known and certainly the most discussed facet of this history. The Brazilian economy is evidently part of this — initially in a passive manner, when it served international financial accumulation due to having configured the demand that lacked a growing financial wealth eager for appreciation, later

<sup>13</sup> In accordance with PAULANI (2017) and PAULANI (2017a).

becoming a victim of this same process, following the brutal increase in interest rates in 1979 and the explosion of the "external debt crisis" in the 1980s; then actively, when, from the mid-1990s onward, under the effluvia of the neoliberal winds that had assaulted the country, it took steps to enter the era of financialization as an "emerging financial power"<sup>14</sup> or, in our terms, as "an international platform of financial appreciation (PAULANI, 2008a; PAULANI, 2012; PAULANI and PATO, 2005).

The entire institutional framework that today frames the functioning of Brazilian capitalism was, therefore, built based on the more important principle of responding promptly and precisely to the interests of financial wealth, particularly creditors and external investors. The rise of the Workers' Party (Partido dos Trabalhadores — PT) to the federal government with Lula's election in 2002, gave rise to hope that there would be some reversal of the liberal agenda in progress, but that did not happen. This trait, therefore, has remained practically untouched throughout the governments of FHC and Lula/Dilma, despite the differences that separate them.

This, therefore, explains the enormous financial openness, with the lack of any control over international capital flows (FHC and Lula), the internationalization of the Brazilian bond market (FHC), tax concessions for shareowners and for the financial gains of non-residents (FHC), the legal changes to give greater guarantees to creditors of the State (Fiscal Responsibility Law from FHC's government) and the private sector (reform of the Bankruptcy Law during Lula's government), the changes in the general social security (INSS) regime and in the public servants' own regimes (Lula government)<sup>15</sup>, and last but not least, the adoption of a macroeconomic prescription aggressively focused on the benefit from financial wealth, based on fiscal austerity and absurdly high real interest rates that are often the highest in the world (FHC and Lula).

From the distinction proposed by CHESNAIS (2016) between **finance** and **financial capital**, we can talk about the existence in Brazil — since at least the 1990s — of a **hegemony of finance** and its predominant form of functioning: **financial capital** and the **banking and finance sector**.<sup>16</sup> BRUNO and CAFFÉ (2015) went in the same direction, emphasizing the Gramscian character of this hegemony, in that permissive institutional structures guarantee its effectiveness and constant reproduction in the field of the

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<sup>14</sup>In the last five years, some orthodox economists have highlighted that Brazil had been chosen by international capital to become a **platform for financial revaluation**.

<sup>15</sup>Besides the social security issue itself, the main objective of these changes is the creation of a substantial private market in this area. With a distributional social security system (like our general, mandatory, universal, and sufficiently comprehensive system), the market for this type of product — a kind of *filet mignon* of the financial system — would always be constrained in Brazil. Hence the need to reduce the space of the general system (more on this in PAULANI, 2008b). As we all know, this story is not yet over. We are perhaps experiencing its final chapter. The aggressiveness and cruelty of the proposal submitted by President Temer, and more recently the proposal submitted by President Bolsonaro to Congress — which condemns much of the Brazilian population to die still working — highlights the strength of the banking and finance sector and the rentier interests currently in the country.

<sup>16</sup>Regarding this, specifically about the banking and finance sector, but using the conceptual arsenal of Poulantzas, see TEIXEIRA and PINTO (2012).

formatting of economic policy, with permanent endorsement of the State, regardless of the ideological nuance of the party that leads the federal executive.<sup>17</sup>

Data and indicators show the strength of the financialization process in the Brazilian economy, as well as its distinctive feature: the permanence of very high real interest rates. The first indicator relates to the  $(M4 - M1)/GDP$  ratio, which more than doubled in less than 20 years, going from 0.3 in 1995 to 0.8 in 2014; the second concerns the ratio between financial wealth (bank deposits, private and public debt securities, shares, and debentures)<sup>18</sup> and GDP, which went from 0.8 in 1994 to 2.1 in 2010;<sup>19</sup> and the third concerns the ratio between the supply of financial assets (as already defined) and the supply of real assets (machinery, equipment, civil construction etc. used in the production of goods and services) — the data show that, while the value of the former increased by a factor of 7.7 between 1991 and 2009, the value of the latter increased by a factor of only 1.4 in the same period (BRUNO and CAFFÉ, 2015, p. 52). The explosion of financial wealth amid the timid growth of real wealth can mostly be explained by the evolution of the rate of the Special System for Settlement and Custody (Sistema Especial de Liquidação e Custódia — SELIC), which enabled accumulation of assets at a factor of 6.5 in the period in question (idem, ibidem).

A perverse byproduct of the continuation of this situation was the accelerated process of deindustrialization that the country experienced, due to the long-term continuation — with only small periods of respite — of a highly appreciated exchange rate. There is a vast amount of Brazilian literature on the occurrence of this phenomenon, but it mainly appears — though it is not restricted to them — in the works of the **new developmentalists**.<sup>20</sup>

Nonetheless, despite the permanence of this modality of macroeconomic regulation with priority guaranteed for financial wealth, even after the PT came to federal power, it cannot be said that the governments of FHC on the one hand, and those of Lula and Dilma on the other, have been exactly the same. In fact, over time, the latter were differentiating themselves from their predecessors because, combined with the continuity of this neoliberal agenda, high impact social policies were being adopted. The **Bolsa Família** (Family Payment) program — often seen as a symbol of these policies — is not the only one, and, if it is the most important from the viewpoint of the reduction of absolute poverty, it is certainly not the most important from the viewpoint of reducing inequality. In the latter case, much more important was the increase in the real value of the minimum wage, which reached 85% between 2003 and 2014, affecting more than 20 million

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<sup>17</sup>This extravagant combination of finance hegemony on the one hand, and the supposedly left government on the other, which marked Brazil in the period analyzed here, made OLIVEIRA (2010) discuss this in *Hegemonia às Avessas (Hegemony on the Left)*.

<sup>18</sup> Does not include derivatives.

<sup>19</sup>In both the first and second indicators, the estimates were prepared by [the authors](#) based on official sources such as the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística — IBGE), Central Bank, and Institute of Applied Economic Research (Instituto de Pesquisa Econômica Aplicada — IPEA), among others.

<sup>20</sup>Regarding this, see OREIRO and FEIJÓ (2010), MARCONI and ROCHA (2012), and HIRATUKA and SARTI (2015), among others.

beneficiaries of the social security system, and very quickly affecting the income distribution profile in the country.

At the same time, a number of other initiatives were occurring, which contributed equally to the creation of a less unequal social fabric. Of particular note are those initiatives related to the ease of access to higher education by the lower-income classes (e.g., the University for All Program [Programa Universidade para Todos — **PROUNI**], the creation of 18 new public universities, and the improvement of the Fund for Financing Higher Education Students (Financiamento Estudantil — **FIES**). There were also countless other social programs administered by the Ministry of Social Development; for example, the **Cistern Program**, which delivered more than 750,000 cisterns in the Northeast between 2011 and 2014, thereby minimizing the effects of the greatest drought faced by the region in 50 years. Along the same lines, we also had the following: the **Minha Casa Minha Vida** (My House My Life) program, which, beyond the difficulties from the technical and urbanistic viewpoint, was a meaningful program of subsidized production of popular low-cost housing; and **Luz para Todos** (Light for All), which was created in 2003 and brought electricity to more than 3 million rural families throughout the country.

Finally, it is worth mentioning a series of programs in the same spirit in the area of culture, and repeated actions — such as quotas and similar things — in defense of so-called "minorities" (black, dark-skinned, and indigenous individuals, women, etc.), as well as the expansion of rights of certain classes of workers (e.g., domestic workers).

But would all these policies be enough to characterize the period beginning in 2003 as **neodevelopmentalist**, even if we add to it the finding that the privatization impetus that had permeated FHC's two terms was relatively halted during the subsequent 12 years? Considering what has already been presented, it is easy to see that no — at the very least because there seems to be an incompatibility of principle between financialization and **developmentalism** or **neodevelopmentism**. How could it be possible to plan, develop, and implement a policy that is truly developmentalist with the practically constant presence of both high interest rates and an appreciated currency? How could it be done under the tyranny of the positive primary results in the public accounts forcing the State to act pro-cyclically instead of counter-cyclically?

In this sense, the preservation, by the PT governments, of the institutional environment in favor of financial accumulation, with the inevitable consequences — in terms of economic policy — that this decision entailed, went hand in hand with the lack of a national project, as defined previously. Even if Lula and his team had some idea about this, it was completely aborted by the greater imperative of keeping intact the priority of financial accumulation, which we will deal with in the next section.

#### 4.2 Neodevelopmentalism in a financial economy?

The first sign that the new stage of Brazilian history — that began with the election of Lula — would not correspond to a change in the way the State acts in relation to its influence on the directions of the accumulation process, and even less so to a "developmentalist" overcoming of its still inferior condition in terms of the degree of development reached elsewhere, was evident even before the union leader won the

presidential elections of 2002. The **Letter to Brazilians** released by Lula — the then presidential candidate — in the middle of that year was a kind of denial of the national project itself that would be expected from a popular and democratic party. Although it spoke about a resumption of growth and social justice, it did not relate these variables around a clear and articulated project of institutional and structural changes in order to achieve these objectives; and although it spoke about the importance of public investments and the need for industrial policies, it basically signaled the maintenance of the institutionality focused on the financial accumulation constructed in the 1990s.

If any "project" can be extracted from such a letter of intent, it is only a gamble on the potential benefits of our substantial domestic market, respecting the rules of the game and maintaining the current status quo. The intervention of the State that can be deduced from it boils down to piloting the current model, with an eye toward seeking the reduction of misery and inequality. As we have seen, that is precisely what happened. The maintenance and even reinforcement of the institutionality focused primarily on financial accumulation was accompanied by the high-impact social policies mentioned above.

Nevertheless, the combination of these two elements (liberal agenda and high impact social policies) is, in principle, contradictory, because it increases the importance and the presence of the State in the economy, besides demanding an increasing — instead of decreasing — level of regularization. Additionally, these policies have strengthened and broadened the social rights guaranteed by the **Federal Constitution of 1988**. The dispute over the public fund has, therefore, become potentially fiercer, given that the resources that remunerate financial wealth come from the same source as those necessary to honor these increased social commitments; that is, the monopoly of taxation held by the State. But as long as the economic growth led by exports and by the multiplier effect of that massive collective of social policies prevailed, this contradiction was accommodated.

The advent of the international financial crisis at the end of 2008, and its consequences for emerging countries, began to dismantle this conciliation — hitherto possible — and its virtuous manner. Initially avoided through the expediting of subsidies to the sectors with the greatest multiplier effect (automobiles and electric appliance) and through an aggressive expansion of consumer credit, the crisis nevertheless worsened at the beginning of President Dilma's first term.<sup>21</sup>

This aggravation was tackled with a policy of backing private investment, through payroll exemption for companies, and with a combination of relaxation of the monetary policy (reduction of interest rates in order to devalue the exchange rate) with fiscal tightening. The lack of response of private investment to these stimuli, the cut in public investments to create the space for the exemptions, the exhaustion of the impulses derived from consumption, and the continuity of the foreign crisis, with an enormous reduction

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<sup>21</sup>With the advent of the international crisis and the weakening of external demand, the Lula government gambled on the domestic market — particularly on domestic consumption — to function as the driving force of the economy. The president went on TV and asked people to not stop consuming. This is certainly one of the reasons why Lula's government is associated with social developmentalism.

in the price of commodities exported by the country, began to produce very poor results, culminating in the tiny rate of 0.1% GDP growth in 2014.<sup>22</sup>

The worsening of the economic scenario led to turmoil in the political scene and the spread of economic terrorism, making the country — after the demonstrations in May/June 2013 — practically split going into the presidential elections of 2014. Both models were there in dispute: on the one hand, the attempt — even in the midst of the crisis — to provide continuity to the — let us say — **conciliatory model** then in progress; and on the other hand, the quest for totally salvaging the neoliberal agenda and breaking away from this model.

With Dilma winning the election by a small margin, her second term nevertheless began under the aegis of the austerity policy, commanded by a leader of the financial market. This new and fatal mistake defeated the economy for good (2015 closed with a 3.8% fall in GDP and a huge rise in unemployment) and opened the political space for the contestation of the second term of the president.<sup>23</sup>

The program that would be implemented — if the maneuver to overthrow Dilma was successful — was already ready and had been made public in October 2015. It was **Uma Ponte para o Futuro** (A Bridge to the Future) — a programmatic document produced by the PMDB party (the party of vice president Michel Temer) and also known, therefore, as the **Temer Plan**. The essence of the document was the complete salvaging of the neoliberal agenda (the losing model in the 2014 elections), purifying it from the social outbursts of the PT governments.

As pointed out, the worsening of the crisis was what prompted President Dilma to try to revive private investment with a mix of policies that involved heterodox elements (e.g., the very rapid reduction of interest rates), orthodox measures (e.g., fiscal adjustment), and others such as the payroll exemptions for some sectors (which generally extended to all sectors some time later). Although related to initiatives that make up what might be called **industrial policy**, this last measure is more for supply side economics (to open space for private investment, thus reducing the presence of the public sector) than for any kind of developmentalist practice.

Thus, besides the absence of a national project that would serve as a guide for planning the State's intervention in the economy, PT's economic policy at that time — with the exception of some specific devices for protecting the national output, focusing on the machinery and equipment, automotive, and shipbuilding sectors — also did not incorporate into its arsenal a policy compatible with the already advanced development

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<sup>22</sup>After the methodological changes adopted by the IBGE starting in 2015, and with the revising of the values of the historical series existing at that time, this value was altered to 0.5%, which was still negligible but not as bad. At the time of its disclosure, however, the value of 0.1% was presented as the result.

<sup>23</sup> This blatant error in the conducting of economic policy, called — not without cause — **betrayal** by several of those who had cast their vote for the reelection of the president, shows the strength of the economic terrorism that formed at the time of the process. In the quest to achieve, for better or for worse, a change in government policy by salvaging the 100% liberal program that had been abandoned to some extent by the PT governments, they all joined forces: conservative interests, the political-electoral opposition, orthodox (academic and non-academic) economists, and the mass media. The strategy was so successful that the president won the elections but did not really: she began her second term conducting the policies of the opposition, and ended it much earlier than expected, a victim of an unfair and illegitimate impeachment.

of the third industrial revolution — something much more complex, from the viewpoint of a possible catch up, than the latter.<sup>24</sup> Worse still, the viability of all these economic policy devices was made at the expense of public investment, whose reduction was enormous in the first term of the president.

In summary, it can be said that the effective result of this, which came to be called — appropriately or inappropriately — the "new macroeconomic matrix", was the exchange of public investment for a gamble on the resumption of private investment, which did not end up happening. Hence the difficulty in referring to such a policy as **neodevelopmentalist**. The denominations of **new** or **social developmentalist** also do not seem to fit it, because, if the followers of the two trends agree with some of their elements, they certainly do not agree with others (without there necessarily being agreement about the objects of the agreement or disagreement, rather it is the contrary).

However, there was, let us say, a "*developmentalist* moment" throughout the 2003–2014 period, at the end of Lula's first term, with the launch of the Growth Acceleration Program (Programa de Aceleração do Crescimento — PAC). From that moment onward, the federal government's spending on gross fixed capital formation (GFCF) went from around R\$ 20 billion annually in 2006 to around R\$ 48 billion in 2010 (values at 2018 prices)

Even with the outbreak of the international crisis in the last quarter of 2008, the federal government maintained the spending on expected investment: the real growth rate for this spending was 34% in 2009 and 38% in 2010. Therefore, adopting a policy of stimulating growth on the demand side, the Brazilian State acted counter-cyclically and, despite the small volume of its spending compared with what it had been in previous times,<sup>25</sup> this gave a positive signal to the private sector and, following the stagnation of 2009 as a direct result of the crisis, real growth of the economy in 2010 was 7.5%. Therefore, by that time it was being said that the crisis had been completely overcome, but the crisis had not been overcome, either internally or externally — worse still, its most damaging consequences for the so-called "emerging economies" had not yet arrived.

The fumbling reaction of Dilma's government to this situation had a severe impact on the public investments and expectations sparked by the launch of the PAC. The average real growth rate of the central government's investments declined from 26% per year in the 2006–2010 period (period after launch of the PAC) to 1.8% in Dilma's first term.<sup>26</sup> The anemic reaction of private investment to the package of measures implemented by Dilma, combined with this abrupt drop in public investment, led to a stagnation in the GFCF/GDP ratio, which had been growing steadily since the third

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<sup>24</sup> See OLIVEIRA (2003). It should be noted that this structural lag existing between, on the one hand, the progression of accumulation at the global level and its corresponding technological paradigm, and, on the other hand, the conditions under which the accumulation process occurs in Brazil, is becoming increasingly larger due to the enormous speed that the imposition of the so-called industry 4.0 (artificial intelligence, internet of things, and robotics) has been attaining worldwide.

<sup>25</sup>In the period from 1950 to 1980, even considering only the central government (like here), the capital cost as a percentage of GDP was about 3 to 4 times higher. Specifically with regard to the role of public investments in the Brazilian economy throughout the 20th and early 21st centuries, see PAULANI (2016a).

<sup>26</sup>All the data mentioned in this paragraph are from the new series of the national accounts (baseline 2010) published by the IBGE.

quarter of 2006. Measured in the accumulation in four quarters, this ratio oscillated between 20.6 and 20.7% between the third quarter of 2011 (after adoption of Dilma's policy) and the first quarter of 2013, then showed a small reaction by reaching 21% in the third quarter of 2013, but subsequent to this it began a substantial downward trajectory (it remained at 15% through almost all of 2017, reaching 15.8% in the last quarter of 2018).<sup>27</sup> For its part, also measured in the accumulation in four quarters, real GDP growth systematically fell from the second quarter of 2011 (5.6%) to the last quarter of 2012 (1.9%), reacted a little thereafter by reaching 3.2% in the first quarter of 2014, but at that point it began a continuous downward trajectory, leading to the recession we are in today — between the first quarter of 2015 and the third quarter of 2017, growth rates were uninterruptedly negative; then starting from the fourth quarter of 2017 they were again positive, but never reached 1.5%.

Taken together, the PT years, therefore, reveal an erratic character and enormous oscillation: total fidelity at the start to the canons of orthodox prescriptions (Palocci years); followed by developmentalist inspiration (PAC years); a mixed reaction of orthodoxy with heterodoxy, but certainly less developmentalist than the previous stage, in Dilma's first term; and then a strong return to orthodoxy in the last 16 months of PT government, with Joaquim Levy assuming the Ministry of Finance. Nevertheless, this coming and going, this banging of heads, is the greatest proof that the PT years cannot be labeled **developmentalist**, because it is the greatest proof of the absence of a national project — preferably national, popular, and democratic — that would have enabled the planning of the economic intervention at the outset.

The three different phases of PT government — with no project and no planning — marched to the tune of the conjuncture, without threatening the status quo in place. The developmentalist inspiration and the heterodox experiments here and there were doomed to failure, amidst an institutionality constructed for the benefit of financial accumulation, which was not decisively confronted at any point in those 12 years. Given this, it would be difficult to expect a different destiny for this, shall we say, "citizen adventure" of the periphery of capitalism at the beginning of the 21st century.

The following subsections present examples of the relationships between institutional structures — some of which are components of the Brazilian mode of regulation — and the corresponding macroeconomic performance.

### 4.3 First example: inflation and monetary regimes

As an example of what has been shown, one can consider the structural interdependence of the monetary policy in relation to the monetary regime to which it applies. The functioning of the monetary circulation, which is the basis of every banking-finance system, is subject to specific institutional configurations that comprise: a) the central bank's management of currency creation (monetary policy); b) the public regulations of the banking sector (financial policy); (c) lending mechanisms, as a last resort, to contain financial crises; and d) the rules regarding financial circulation with foreign countries.

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<sup>27</sup>Solely for comparison purposes, China's rate is around 35%.

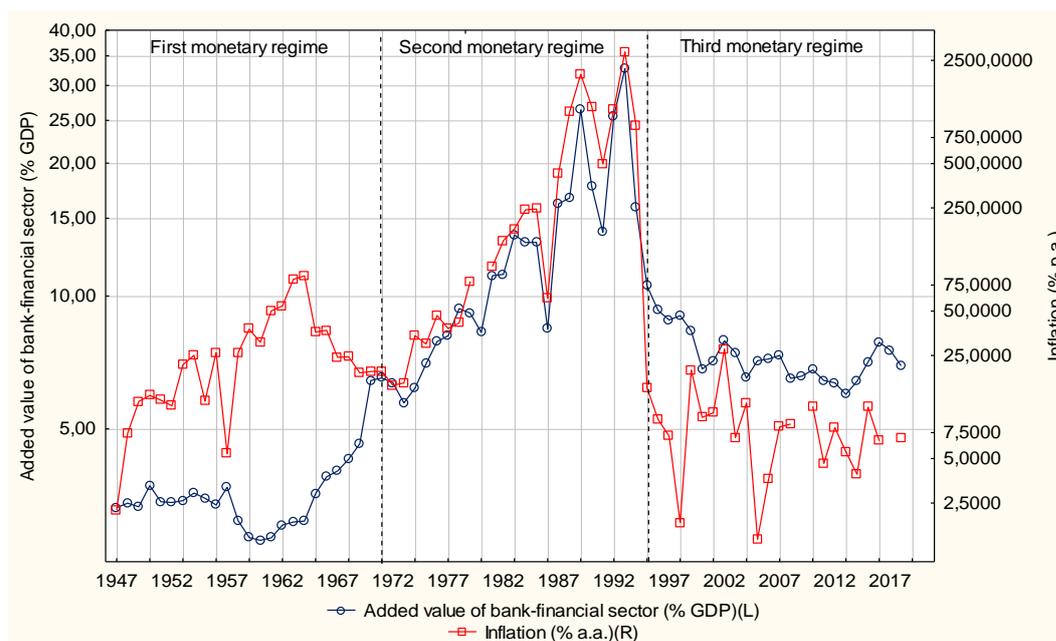
All these normative and institutional arrangements are part of the **monetary-financial regimes**, and each accumulation regime has its own monetary regime. The transformation of an accumulation regime has historically coincided with significant reforms at the level of the structures codifying the monetary regimes. Consequently, in operational terms, money as one of the basic institutions of the monetary economies of production must be understood in the form of a monetary-financial regime, whose mutual determinations with the productive and distributive structures invalidate the hypothesis of neutrality of money in both the short and long term. According to Billaudot (1996, p. 49), each form of organization of money is a monetary regime that respects two fundamental principles, as stated by Aglietta (1988; p. 110):

- The existence of a common unit of account that delimits a monetary space;
- The conducting of any economic transaction in money; that is, any non-zero balance between individual revenues and expenses is regulated in money.

In summary, a monetary-financial regime is the result of the combination of organizational and institutional structures (public and private) that serve to support monetary and financial circulation, giving them certain regularity standards that are in line with the economic activities, the relationships between the State and the economy, and the specific level of development from the accumulation of capital.

Figure 1, below, shows the evolution of the inflation rate together with the evolution of the share of the value added of the banking-financial sector in the Brazilian GDP (financial VA). There are clearly three periods corresponding to three monetary regimes, which are differentiated by their macroeconomic regularities. In the first regime, there is no statistically significant relationship between inflation and financial VA. In the second regime, the two variables evolve in a positive correlation, because inflationary gains promote financial accumulation, while making orthodox anti-inflation policies — of inertial origin at that time — completely ineffective. In the third period, the monetary regime is one of low inflation, although the positive correlation between financial VA and inflation is maintained. The banking-financial accumulation quickly replaced inflationary gains with high real income from interest, which had previously been reproducible through the generalized indexation of prices and wages. A relevant theoretical result can be drawn from this analysis: each accumulation regime has its own monetary regime and, consequently, an economic policy regime that it is interdependent on.

Figure 1. Brazil: three monetary regimes contrasted by their relation to inflation



Source: own elaboration based on data from the IBGE and the Brazilian Central Bank.

A monetary-financial regime can be favorable to the development of credit for directly productive sectors, or serve as a basis for rentier-patrimonial accumulation that is predominantly financial. In the case of a country like Brazil, this latter case is a structural limit to social and economic development. Under this accumulation regime, developmentalist policies do not have the expected effects and become the target of unfounded criticism of the orthodoxy that, due to its theoretical assumptions, does not comprehend the structural links between economic policy regimes and productive and distributive structures.

Table 3 below summarizes the results for the association between monetary regimes, banking-financial accumulation, and inflation in Brazil in a long-term context.

Table 3. Brazil: three monetary regimes associated with different relationships between inflation and value added (VA) of the banking and finance sector

Monetary regimes	Structural characteristics	Estimated coefficients of the relationship between the added value of the financial sector and inflation	Economic policy
<b>Regime 1 (1947-1970)</b>	<ul style="list-style-type: none"> <li>▪ Undeveloped banking and financial system</li> <li>▪ There is no statistically significant relationship between financial VA and inflation</li> </ul>	<p style="text-align: center;">-0,0589 (p-value = 0,24000) <math>R^2 = 0,06217</math></p>	<ul style="list-style-type: none"> <li>▪ Orthodox policy of fiscal adjustment, based on monetarism, to combat inflation (Government economic action plan - PAEG 1964-66)</li> </ul>
<b>Regime 2 (1971-1994)</b>	<ul style="list-style-type: none"> <li>▪ High inertial inflation expands the added value of the financial sector and promotes concentration and banking accumulation through inflationary gains</li> </ul>	<p style="text-align: center;">0,2764 (p-value = 0,0000) <math>R^2 = 0,8351</math></p>	<ul style="list-style-type: none"> <li>▪ Inflation is inertial and monetarist orthodox policy is ineffective</li> </ul>
<b>Regime 3 (1995-2017)</b>	<ul style="list-style-type: none"> <li>▪ Post-Real period</li> <li>▪ Inflationary gains are quickly replaced by high real interest income (usurious gains) and banking accumulation reaches a new level</li> </ul>	<p style="text-align: center;">0,05697 (p-value = 0,1271) <math>R^2 = 0,10729</math></p>	<ul style="list-style-type: none"> <li>▪ Other transmission channels respond to inflation control, such as the tendency towards real appreciation of the exchange rate</li> </ul>

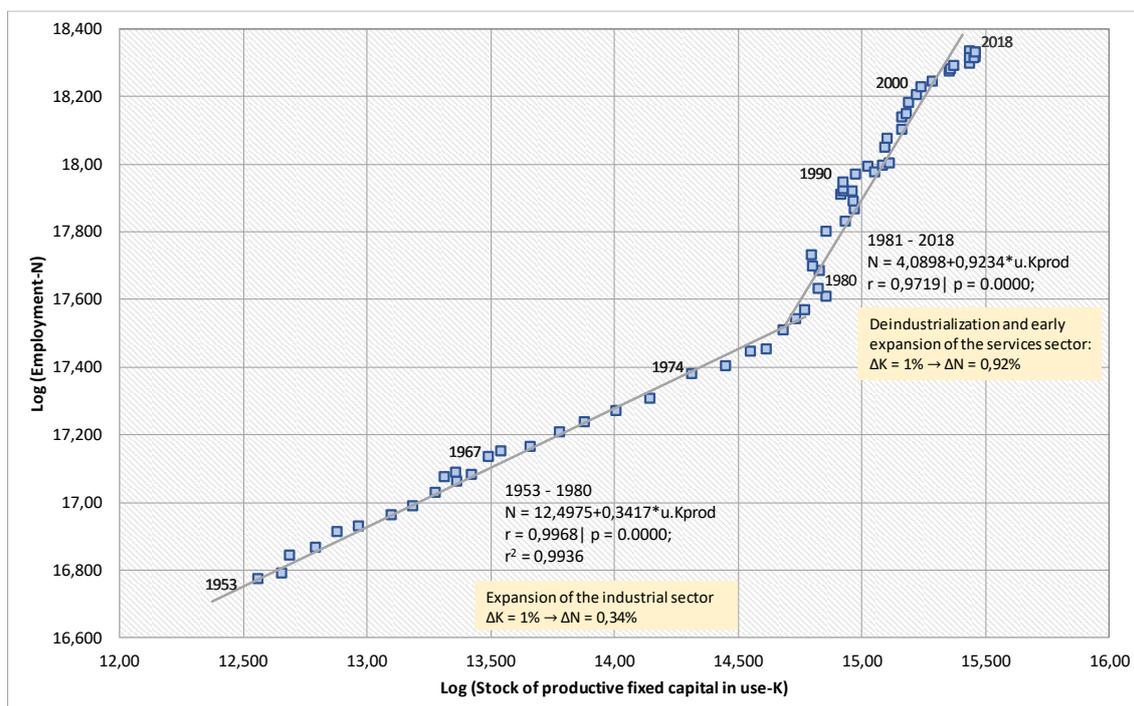
Source: own elaboration.

#### 4.4 Second example: changes in production structure and employment

Another way of understanding the transformations of the regime of growth and capital accumulation — resulting from institutional changes — is to verify the behavior of the relationship between the growth of the supply of productive fixed capital — the basis for the generation of employment and income — and the corresponding level of employment. Figure 2 below shows a scatter diagram, in which two periods can be seen, which differ by the elasticities between these structural variables.

From 1950 to 1980, the "engine" of the growth regime was the strong industrial expansion. However, due to its specific characteristics, the employment coefficient is lower in industry than in other sectors of activity, and this is reflected in the fixed capital elasticity of employment in this first period, which had a value of 0.338. A 1% increase in the supply of productive fixed capital expands the level of employment by 0.3%, on average. However, the accelerated industrial expansion was able to absorb the growth of potential labor supply, without pressuring unemployment rates.

Figure 2. Starting in the 1980s, a new regime of deindustrializing accumulation emerged in Brazil



Source: own elaboration.

Note: u.Kprod = supply of productive fixed capital in use; N = employment.

Starting in 1981, the Brazilian economy began exiting its trajectory of high growth and entered a period of great macroeconomic and structural difficulty, highlighting the beginning of a long process of de-industrialization. The early de-industrialization — at a time when the country had a per capita income of just over US\$ 4,000 — led to a rapid expansion of the services sector, which by its nature is labor-intensive, and this enabled the growth of employment. For this reason, the fixed capital elasticity of employment increased to 2.5 times the value in the first regime (i.e., 0.8322). A 1% growth in the supply of productive fixed capital expanded employment by 0.83% — this structural feature explains the ease of job creation in the subperiod 2004–2013.

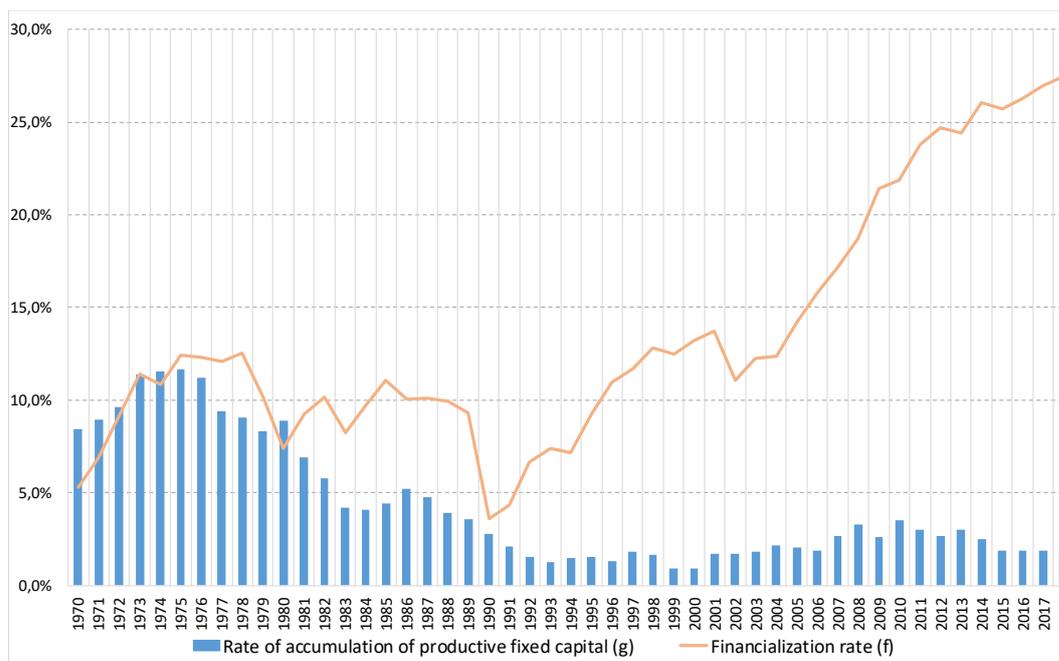
#### 4.5 Third example: the disconnection between financial accumulation and accumulation of productive fixed capital

In Figure 3, the rate of accumulation of productive fixed capital was plotted; that is, the growth of the supply of fixed capital ( $g$ ) and the macroeconomic rate of financialization ( $f$ ), calculated as the ratio between the total supply of non-monetary financial assets ( $FA$ ) and the supply of fixed capital. It is also possible to see three periods in the evolution of these two macroeconomic series. If these two ratios were divided, one could obtain a financialization index that measures the degree to which financial assets replace fixed assets, to the detriment of economic growth.

In the first period, 1970–1994, the two series remained very close to one another, which indicates that the income generated in directly productive activities had approximately the same magnitude as the resources allocated to financial assets. Under these conditions, the existence of the financialization process cannot be considered,

because — as shown in Table 4 — for each R\$ 1.00 invested productively, there was R\$ 1.01 invested in financial assets. But since the 1980s, the financialization rate started on a persistent trajectory of growth. Consequently, in the second period, 1981–1994, for each R\$ 1.00 allocated to gross fixed capital formation, there was R\$ 2.04 invested in financial assets. In the third period, 1996–2016, the financialization rate was much higher — for each R\$ 1.00 destined to productive investments, R\$ 7.66 was invested in finance. The revaluation and rentier and financial accumulation reached a paroxysm, halting the socioeconomic development of Brazil.

Figure 3. Rate of financialization and rate of accumulation of productive fixed capital in Brazil for the period 1970–2018



Source: own elaboration.

Still in relation to Table 4, the following observations can be made. The financialization in the third period is classified as high because low- and middle-income classes were captured by high finance through household indebtedness. Non-payment has grown excessively thanks to the banking process and the provision of credit cards to the poor. At first, they seem to have benefited from credit access to consumer goods that they could not afford beforehand. But the extraction of interest revenue from these financings and loans for lower-income groups was enormous. This contrasts with the 1980s through to 1994 (the second period in Table 4), in which financialization was classified as restricted, because it depended on upper-middle class segments and the rentier elite, given that low-income groups did not even have bank accounts or access to formal credit. But it was also restricted or limited because it was heavily dependent on public indebtedness. With the improvement in personal and functional distribution of income through the minimum wage and the average wage and employment growth in the Lula period and Dilma's first term, finance expanded its market for extracting interest income: it moved from domestic public debt as the main axis of rentier-patrimonial accumulation to the private indebtedness of households and non-financial companies. Thus, the financialization modality of developed countries was approached, with the difference that in Brazil the cost of credit is much higher. Consequently, given the high cost of credit, low wages, unemployment, and increase in the precariousness of labor relations, the mass

financialization in Brazil is a socially negative macroeconomic phenomenon, since it elevates the personal and functional concentration of income in favor of the profits and the income of the owners of capital and large banks.

Table 4. Taxonomy of financialization in the Brazilian economy and economic policy regimes

Characteristics \ Periods	1970-1980	1981-1994	1995-2018
Financialization index	1,02	2,25	8,63
Taxonomy	Absent	Restricted	Extended and High
Origin	-	<ul style="list-style-type: none"> <li>▪ Inflationary gains derived from the generalized indexation of contracts from the public indebtedness</li> </ul>	<ul style="list-style-type: none"> <li>▪ Interest income and other financial gains with financial assets derived from internal and private public indebtedness (non-financial corporations and households)</li> <li>▪ Private finance subverting public welfare provision</li> </ul>
Macroeconomic and social implications	<ul style="list-style-type: none"> <li>▪ Institutional conditions for indexation practices via monetary correction</li> <li>▪ Rising concentration of income and wealth</li> <li>▪ Fall of the wage share</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development of rentier accumulation thanks to "financial currency" or "indexed money": elitized financialization</li> <li>▪ High inflation with stagnant productive investment</li> <li>▪ Low levels of wage share, compared to the international average</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government attempts to reconcile the interests of banking and financial sector with social policies</li> <li>▪ Stabilization of inflation (1995) and recovery of productive investment as of 2004, but strong fall from 2015</li> <li>▪ Mass financialization through a moderate increase in wage share, collateralization of social policy, expansion of the supply of consumer credit, private pension funds, insurance and new financial services to families and companies.</li> </ul>

Source: table 2 updated in Lavinás, L. Araújo E. and Bruno, M. (2017).

It must be recognized that the financialization of today's economies has altered many of the macroeconomic regularities correctly presupposed in the Keynesian theoretical models. Regulated finance, focused on the accumulation of productive fixed capital, and the Bretton Woods international monetary system were two of the fundamental institutional conditions for the macrodynamic compatibility between the Keynesian economic policy regime and the growth regimes of the Fordist period — structural conditions that do not exist today. Wherever it arises and is consolidated, the financialization phenomenon confirms the timeliness of Keynes' economic thinking. The preference for liquidity — now taken as a paroxysm due to rentier-patrimonial accumulation — is one of the keys of *General Theory*. Together with the principle of effective demand, they contribute to the development of relevant and satisfactory analyses of the macroeconomic challenges that need to be faced: long-term unemployment, low economic growth, and the increasing frequency of financial crises — these three factors stimulate theoretical production and the recovery of the relevance of active economic policies in a monetary production economy.

As Boyer (2015, p.197) observed, the post-Keynesian theoretical approach rediscovers an audience in times of crisis, given that it has long argued that an active economic policy is needed to compensate for the structural instability of economies, which are unable to maintain full employment in growth regimes subordinated to the interests of liberalized finance. For Boyer, the strength and persistence of Keynesianism

stems from the fact that it proposes a normativity alternative to the proponents of the free market. On the other hand, the principle of effective demand enables a much more realistic interpretation of the macroeconomic situation than the approach of the new classical economy.

#### 4.6 Fourth example: international insertion and employment elasticities

In Table 5, it can be seen that there are two patterns of macroeconomic regularities corresponding to different productive and distributive structures; that is, corresponding to modes of regulation and accumulation regimes that have diverse institutional characteristics. Under the accumulation regime of the 1985–1989 period, when the economy had not yet entered the globalization context, the GDP elasticity of employment was 0.377. Under the new institutional form of international insertion, this elasticity practically doubled. One of the explanations is the change in the composition of output, which came to have the services sector as the dominant sector. As it is a labor-intensive sector, the sensitivity of employment to changes in GDP should be higher than that of a regime still reminiscent of the period of high growth based on the capital-intensive industrial sector. On the other hand, the wage cost elasticity of employment went from 0.208 to -0.375; that is, practically double but with a change in sign and it became negative when the Brazilian economy reinserted itself in the international context, in a pattern that is clearly more favorable to rentier-financial accumulation and unfavorable to industrial accumulation.

Table 5. The level of employment in Brazil responded differently to changes in GDP and wages, in accordance with the characteristics of the growth regime in force

Period	GDP elasticity of employment	Wage labor cost elasticity of employment
1985–1989	0.377	0.208
1995–2001	0.726	-0.375

Source: Bruno (2005).

How can this change be explained in the macroeconomic regularities? The new institutional form of international insertion of the Brazilian economy, which emerged in the 1990s, presupposed commercial and financial liberalization, which involved the removal of various normative devices that had restricted the movement of capital and overtaxed imports. Thus, many of the institutions that characterized the growth regime of the developmental period — based on industrialization by substituting imports — were deconstructed. Among the macroeconomic results, the values and signs of these elasticities changed in response to the institutional changes. In the first period, besides being lower, the wage cost was not an obstacle to the generation of employment. Employment and wages maintained a positive correlation that was, therefore, in accordance with the Keynesian principle of effective demand. In the second period, when the economy adhered to the globalization process, the sign changed and the new regularity adapted to that predicted by the neoclassical theory, which considers wages primarily as a cost of production, disregarding the fact that wage income is the main factor of

consumer demand in today's capitalist economies, which essentially function on the basis of **wage societies**.<sup>28</sup>

## 5. Conclusion

“The existence of current savings, external to firms, carried out by people living on rental income, tends to depress investment and, consequently, reduce long-term development.”  
(Michal Kalecki, *Theory of Economic Dynamics*, 1985, p. 184)

The effectiveness of national development strategies — including economic policy — stems from their structural and macrodynamic compatibility with regimes of growth and capital accumulation. There are institutional configurations that favor productive investment and, therefore, development, and others that hinder it. Economic policy and other State actions must be understood as "drivers", "accelerators" or, on the contrary, "brakes" of the process of growth and economic development (catching up). The "engine" corresponds to the productive and distributive structures that, in conjunction, determine the characteristics of the accumulation regimes. Since policies and structures are institutional constructs and not attributes of transhistoric deterministic forces, they have been subject to the conscious action of economic agents throughout history.

As for the Brazilian case, of particular note is the structural and macrodynamic incompatibility between the accumulation regime and the development-oriented State actions that would necessarily involve structural changes in favor of industrial expansion. However, from a sociological point of view, the rentier elites and bank owners, who became economically and politically stronger in the 1980s compared to the State, would govern the institutionalization of a new pattern of international insertion of Brazil. In the subsequent decade, they forced the State to prioritize its interests and those of the global financial markets, and prevented a productive insertion based on industrial exports, as South Korea and China wisely did. For this reason, according to Chang (2018), Brazil is experiencing one of the largest de-industrializations in economic history.

The institutional structures that reproduce the growth regime have been constructed since the 1990s to respond quickly and accurately to the interests of rentier-patrimonial accumulation, particularly those of domestic creditors and short-term capital. The rise of the PT to the federal government raised hopes that there would be some reversal in this liberal agenda, but that did not happen.

As Aglietta (2001) observed, the trajectory of capital accumulation depends on its past history — there is a hysteresis. This is the reason why the liberalized finance credit system, insofar as it is characterized by strong fluctuations in asset prices and indebtedness, constantly provokes recessive adjustments to the supply of fixed capital. This structural characteristic must be considered in every developmentalist approach to the Brazilian case.

The three phases of PT government, with no project and no long-term planning, marched to the tune of the conjunctural oscillations, incapable of threatening the status

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<sup>28</sup>The wage society concept can be found in Aglietta and Brenner (1984) and also in Robert Castel (1998).

quo in place in order to implement the necessary industry-based pro-development structural reforms. In this context, the developmentalist inspiration and heterodox experiments were doomed to failure, due to their contradictions with the characteristics of a growth regime geared toward financial accumulation.

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