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Title: Coalitions for development: A new developmentalist interpretation for the abandonment of industrial capitalist from PT political coalition

Abstract: The paper uses a socioeconomic framework to understand what is behind the dismantling of PT political coalition. First a theoretical discussion presents the interconnections between Developmental State and class coalitions. Second, PT political coalition is described by connecting the interest of different social classes with macroeconomic, industrial and social policies implemented by the government. Finally, it is provided new interpretation and evidence for the abandonment of the industrial capitalist from the dominant coalition. For that, the New Developmentalist argument of the lack of satisfactory profit rate and Furtado`s argument on development-stagnation dichotomy is presented and empirically supported.

Key-words: Political coalitions, industrial capitalist, satisfactory profit rate, new developmentalist.

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Introduction

"At no moment in our history was so great the distance between what we are and what we expected to be"

Celso Furtado, O Longo Amanhecer (1999, p.26). Authors translation.

It seems that there will be no better occasion to quote Furtado`s words than under the political and economic conjuncture of Brazil today. The terrible combination of policies and ideologies that are neoliberal in terms of economics and very conservative and regressive in terms of customs, democracy and society. But despite the current conjecture, historically, the sustainability of governments and political elites depends on the support of a political coalition. In a broader view this political coalitions have been liberal or developmental (Bresser-Pereira and Ianoni 2015). The aim of the paper is to analyze what is behind the dismantling of the developmental coalition of Dilma`s government that opened a window of opportunity for the neoliberal coalition assume State power. Since a political coalition is formed by contradictory and hierarchical behavior our interest is to identify the reasons the hegemonic fraction of Dilma`s coalition chose to abandon her. Hence, our main research question is why the productive capitalist shifted from the hegemonic position of the developmentalist coalition to a subordinate position in the neoliberal coalition?

While the academic literature has been focusing on institutional aspects of political coalition the present research aims to contribute to the few studies that uses a broader notion of political coalition in which both institutionalist and sociological elements are taken into consideration. In this regard, despite arguing for a broader view of coalition the emphasis on productive capitalist concentrate our study on sociological aspects. The scope of analysis is the period of Dilma I (from 2011-2014) since it has been showed that the government support base has deteriorated before 2014 election. Therefore, first is analyzed the phase of harmonic interplay between public policies and productive capitalist demands and later the signs that this relationship was dissipating.

Besides providing a theoretical discussion on political coalition and an empirical portrait of the political coalition in Brazil the paper has two main contributions; a) has showed that the fundamental element behind the abandonment of the productive capitalist fraction from the dominant coalition is that their profit rate was below the satisfactory level - as argued by the new developmentalist literature (Bresser-Pereira and Ianoni 2015) and b) brought back Furtado`s development-stagnation dichotomy in which explains that political coalition between workers and capitalist are viable if (and only if) provide economic growth, which was not the case under Dilma`s government.

Our argument will proceed as follows. Section 2 presents the theoretical background on political coalition and the main limitations of the paper. The political coalition under Dilma is analyzed in section 3. The causes behind the abandon of productive capitalist from the development coalition is discussed in section 4. A brief conclusion is made in section 5.

Section 2: State, coalition and hegemony

The recent literature has been arguing the formation of a developmentalist coalition as determinant for the success of a developmental state (Bresser-Pereira and Ianoni, 2015; Gaitan and Boschi, 2015). According to Leftwich (2010) "political coalitions are required to consolidate and guarantee the 'political settlement' upon which any effective and enduring state depends and which are the hard core of developmental states, especially the so-called democratic developmental States" (p. 102). The research on political coalitions have been following two different streams of theory; the neo-institutionalist and the socioeconomic. According to Ianoni (2017) the first investigates the mechanism and resources from which a president constitutes and maintain its support and political base in Congress. While the second refers to the structure of domination that is built by the nexus between politics and public bureaucracy in one hand and classes and fractions in the other. Altogether, intermediated by formal and informal institutions.

In Brazil, the neo-institutionalist discussion is grounded on the famous term - *Presidencialismo de Coalizão (presidency of coalition)* – first-made by Abranches in 1988. According to the author, the term refers to the political system in which the winner political party does not have majority in the parliament due to high number of parties and thus, to build governability, depends on interparty coalitions. The coalitions aim to grasp political power to execute the policies whished by the executive in the national parliament. Hereafter, the neo-institutionalist researches on political coalition have been focusing on party coalition, centralization or decentralization of power within the president and its capacity to control the schedule of the parliament (Limongi 2003).

Those analysis are indeed fruitful to understanding the balance of power and State actions. However, they seem incapable of providing the hole portrait behind States decision since they do not consider the role of the society and classes, economy and conjuncture. To what extent actors in society have power to influence State action? Does an international or national economic crisis impact the formation or sustainability of a political coalition?

To integrate those elements in a broader and more complete view of political coalition one would need to connect the institutionalist analysis with a socioeconomic framework. This amplified notion of coalition would also demand a broader notion of State and its social bases of political domination. The discussion on class coalition helps the understanding of the relations and interconnections between the State and the Society. It seems obvious that both influence one another but is less clear the weight of this relationship and from which side originates the causality. With no aim to come to a deterministic conclusion our interest is to understand if and how different social actors behave and organize themselves to guide State actions to their interests.

Formally, one could come to a general definition of the State as a normative institution plus a legal apparatus that governs it and as the instrument of collective action of a nation. In addition, a socioeconomic approach must consider the perspective that the basic mission of the State is the maintenance of a *status quo* like the privilege of the social minority of whose have control over the production means (Furtado, 1964, p.42). It becomes harder toe, to specify and generalize the influence of the society on State actions since the relation is dynamic and must be understood from a historical perspective. In this context, before targeting understand the relations between social classes and State in Brazil it is fruitful to see how academic literature have overcome those difficulties and how their theories can serve as a productive instrument on this task. What do we know about State autonomy? To what extent classes and society determine State actions and policies?

The historical process of development has been, logically, altering the State and the role society has been giving to it. The amount of services demanded by the population to modern states are more extensive and complex. Furtado (1964) suggested that this not only resulted in the expansion of the public bureaucracy in size and complexity but also its relative power. The author argues that one shall see the State as an autonomous stratum, with its own actions and objectives, even toe it is also an instrument of one of its classes. With some differences, Poulantzas (1968) classifies the autonomy of the state as “relative” precisely due to its relation to capital and mode of production. The author emphasizes the structure of the capitalist system on shaping the autonomy of the State since the relation of means of production “confer the State's legal institutional superstructure a specific relative autonomy in relation to production” (Poulantzas, 1968, p. 271, authors translation). In line with Poulantzas, Przeworski (1985) also made e very important contribution, both empirically and theoretically, in which he shows the State is structurally induced and constrained to not interfere in the relation of production in which the social classes are inserted. The constrain would come from the “veto power” of the capital since the society as a hole depend on the investment realized by the private capitalists (Przeworski and Wallerstein 1988)

One can note a complex and even contradictory behavior of the State and its bureaucracy. In the same time that, on one hand, it serves as instrument of the dominant class and has only relative autonomy in relation to the capitalist system of production, on the other hand, it has its own interest and objectives. The lack of a “complete” autonomy by the State whilst is a constrain for the political elite it also opens space and necessity for the formation of alliances and coalitions.Weber in his classical work “Economy and Society” enlightens that the institutional power of the State is a structure whose genesis, development and functioning depend on alliances and allies (Ianoni, 2017, p. 155). Here, one could imagine that the bureaucracy acting as an autonomous “class” is also part on the arrangement to form a dominant coalition. For instance, that is apparent in Brazil during the “developmentalist” decades both under Vargas administration as well as during the dictatorship (Bresser-Pereira, 2007; 2013). Moreover, this is also apparent in the Developmental States in East Asia (Johnson, 1982; Evans, 1996 ; Wade, 1990).

If one understand the State as Gramsci (1999) and thus as a “confusion between civil and political society (…) in the sense that one might say that State = political society + civil society” (p. 532) one must go beyond the understanding of the bureaucracy and political parties to analyze State action and must interconnect them with the analysis of social classes and its fractions. One of the first and fare-most recognized works that has brilliantly used the amplified approach on coalitions was Marx analysis of the *Coup d'Etat de Luis Bonaparte III.* In the book named The Eighteenth Brumaire of Louis Bonaparte, Marx analyze the coup of December 1951 through the examination of 5 main social classes, its conflicts and relations. This historical event showed that in order to achieve power different classes form coalitions but that dispute between fractions within the same class is also possible. Furthermore, the author also expresses different possibilities of power relation between classes and fractions inside a coalition.

Marx analysis of the Coup clearly illustrate how classes and fractions form coalitions to obtain power and influence State and society. If back-then the relations were already intricate it would be difficult to deny that a more complex society tend to generate a more complex class structure culminating in more multifaceted relations. In this perspective, Poulantzas (1968) elaborated a schema that can be a helpful instrument in analyzing the formation of a dominant coalition in a certain historical period. The author observes a mode of conduction of the State that is characterized by a bloc in power, a hegemony inside the bloc and, by a support class. The author displays a fractioning of the bourgeoise class derived from the capitalist mode of production. Apart from the traditional proletariat versus capitalist conflict there is also the possibility of dispute inside the classes. The organization of those different classes and fractions, through contradictory and hierarchical relations, that exercise political domination and influence State actions is called Bloc in Power.

The bloc in power constitute a totality with contradictory rather than equivalent elements. According to the author the bloc does contain classes and fractions, but they might have "political power" unequally distributed within its participants. Often, there is a fraction that influences the most and thus, is hegemonic inside the dominant bloc. Hereafter, as stated by Poulantzas (1968) "The power bloc constitutes a contradictory unity of politically dominant classes and fractions under the aegis of the hegemonic fraction " (p. 234).

Despite opting to use dominant political coalition to refer to what Poulantzas called Bloc in Power, since the term is similarly grounded and have been mostly used by the recent literature in Brazil (Bresser, 2013; Singer 2015 and 2016; Ianoni 2018), the study does not disregard the importance of the concept and its characteristics. In this context, our interest is to understand the dominant coalition during Dilma`s government but focusing specially in its hegemonic fraction. Dominant political coalition is seen as prudential for the sustainability of

State decision and its analysis is a crucial explanatory element to understand what levers the State action and decisions. It enables the analysis of how the ratio of forces can influence the positioning, acting and organization of the actors and the formation of coalition in dispute.

Even toe the broad concept of coalition aforementioned is used to analyze the dominant coalition under Dilma`s government, the focused of the analysis is the productive capitalist. Hence, the research confronts the common conflict between choosing a broader analysis richer in elements and structure against a more specific and detailed analysis of a particular element of the totality. The interest of the present study inquires selecting the second without disregarding the first. In fact, it is followed the essence of dialectic in which the totality cannot be explained by the isolated analysis of its different parts. The totality is initially understood through a "synthesis, mainly intuitively (…), and it is starting from the synthesis that the analysis of a particular element acquires significance" (Furtado, 1964, p.14, authors translation). In other words, it is first necessary to understand the dominant coalition before directing the study to focus only on its hegemonic fraction.

Finally, would be rational (after endorsing a historic-deductive method) that a complete analysis of dominant coalition and its influences on State action embrace a wide range of public policies. Nevertheless, due the reduced scope and ambitious of the study one would have to center the analysis in the main areas of interest and dispute between the classes and its fractions. After an extensive bibliographical work Ianoni (2018) comes to conclude that those main areas are: Macroeconomic policies, industrial a technological policies, foreign policies, agricultural policies and social policies (p.187). From that, this research opts to put aside the foreign and agricultural policies. Hence, the method of research will be based on relating macroeconomic, industrial and social policies implemented by the government to the interest of different classes and fractions in society, aiming to see who they are benefiting the most. For that, it will be combined empirical studies on those public policies with business entities reports and bibliographical review on the discussion about the political coalitions in Brazil.

Before changing the focus to the dominant political coalition in Brazil it is important to clarify an academic and political disagreement regarding the possibility and prospect of coalition between classes. This is harshly comprehensible and reasonable for those who see the pure socialism as the only alternative or for those who as Marx foresee the cataclysmic triumph of the alienated through a growing polarization of material interests (Marshall, 1963, p.9). Oppositely, many see, as did Marshall (1963), that the "persistence of the tension between classes is actually what gives the capitalist society its particular dynamism" (p.9) and that a possible cooperation between work and capital does not make it impossible or artificial a general antagonism between them (p.139). In fact, some go on arguing the Democratic regime is the one that in the same time that permits the development of those conflicts also open the way to overcome it (Furtado, 1964, p. 42).

Furtado (1964) illustrate that the antagonism between classes also represent itself, in the subjective plane, in an ideological polyvalence. Each class has an ideal and proposals towards the future of society culminating in a cultural duality. However, the author shows that this dualism of value does not exclude the consciousness that there are common interests. The affinity of interests comes to the fore, in particular, when one poses the problem of the development-stagnation dichotomy (p. 66). In the same direction, but in political terms, Bresser-Pereira (2014) stakes that if the thesis of socialism as a concrete and real alternative to capitalism here and now "is unfortunately not true, the exercise of politics, when is not mere criticism, but social construction, have to think in a better capitalism, less unjust and more efficient" (Bresser-Pereira 2014). And for that to be possible, regardless the inherent class conflicts, the formation of a coalition is necessary.

Section 3: Political coalitions under PT

In the 2000s, with the entry of the Workers' Party in government, the industrial entrepreneur rejoined the political coalition that was characterized as hybrid by arbitering with different fractions and classes. This is perceptive by the antagonism between academic interpretations of the period since Singer (2012) emphasize the role of the sub-proletariat while Boito (2013) argues the hegemony was uncontestable with the internal bourgeoise and others[2] assert the benevolence with the financial fraction specially in the beginning of Lula's government. However, what apparently is more accepted is that over time (2002-2014) the productive capitalist acquired more importance and that developed gradually through the years of PT government reaching complete hegemony under Dilma I (Diniz and Bresser-Pereira, 2013; BOITO 2012; Ianoni and Cunha, 2018; Singer, 2015, 2016). The classification and

[2] See Oliveira et. all (2010)

characteristics of each class is showed in appendix 1 while next section describe the relations between them and the Brazilian State.

Dilma developmentalist coalition

In the very beginning of the mandate, the economic team shared and continued the forecast of the end of Lula`s government regarding the international economy and the crisis and opted to continue restrictive macroprudential policies (Barbosa, 2013). Basically, it consisted in a) increase compulsory deposits and demand higher requirements of capital for the banking system and b) focusing on control inflation and reduce GDP that was above potential. However, the policies implemented were deemed to be momentaneous since was already perceptible the inclination of the new president for a more active role of the state and for policies favoring the productive capitalists and workers. This is noticeable in Dilma`s first speech as she asserts her a) eager to continue social policies of last governments through inequality and poverty reduction b) demands against financial-rentier fraction by asserting in favor of financial regulation, capital control and austerity measures.

Besides the signals from Dilma`s first speech, the formation of a political coalition between workers and productive capitalist were evident by their jointly and similar actions and positioning. The most illustrative case is the meeting "Brazil of the dialog for the production and employment" in 26 may 2011 organized by the Industry Federation of Sao Paulo (Fiesp) and workers syndicates as Central Office of Workers (CUT), Syndical Force (FS), ABC metallurgists 'union and union of metallurgists of Sao Paulo and Mogi das Cruzes. The main discussed topics that turned into a document is presented in table 1 and discussed below. Later, they[3] also organized a jointly movement "for a Brazil with lower interest rates".

At that time, apart from all demands of the document, it was clear their main goal was to favor the reduction of interest rates. In the words of President of FIESP and of the president of syndical force, respectively,

> *"We cannot allow it to continue in speculation. For 16 years, interest in Brazil has been absurd " Paulo Skaf[4], September 2011*

[3] This time also together with ABIM – Brazilian Association of Machine Industry.

[4] https://www.fiesp.com.br/por_um_brasil_com_juros_baixos/

“We have been champions of high interest for 16 years, and with this, Brazil does not grow or develop” Paulo Pereira da Silva, September 2011

The match of the presidential speech and the workers and productive capitalist demands indicates a political coalition between them. However, as we discussed in the theoretical section political coalition or power bloc is organized through contradictory and hierarchical relations. At this point, whilst the coalition appears evident the hegemony is too soon to define. For that, one must investigate pubic policies implemented by the government to analyze its goals and priorities. Table 1 illustrates selected demands and recommendations written in the document aforementioned as well as public policies implemented by the government.

Table 1: Demands from Productive capitalists and Workers VS Dilma`s public policies

Demands***	Public policies
Reduction of the interest rate and spreads	a)Reductions of the basic interest rate (SELIC) from 12.5 in july 2011 to 7,25 in octuber 2012. In april 2013 real interest rate was of 2%*. b) Forced Public banks (Caixa Economica Federal and Banco do Brasil) to reduce their interest rates boosting competition and reducing Spreads.
Strengthen BNDES	Subsidized credit line by means of treasury onlendings - Contribution of 400 billion reais in the first Dilma`s mandate**
Industrial Policy	a)Investment Support Program (PSI) - aimed at the production, acquisition and export of capital goods and technological innovation and b)Plano Brasil Maior - a federal program to increase the competitiveness of the industry whose logo would be "Innovate to Compete. Compete to Grow ".
Strengthen payroll exemption	April 2012 is anouced payroll exemption for 15 labor-intensive sectors and reched in 2044, 42 sectors and savings of 25 billions annually for the businessman**
National content and Government purchases (national preference)	July 2012 launched a program of government purchases to favour local production and september 2012 they incresed import tarifs of 100 products.**
Social and employment policies	Increased in average 12 percent, annually, from 2011 to 2014 social benefits like unemployment insurance, social security benefits, INSS welfare benefits****
Technical education	In april 28 of 2011 is launched the Pronatec program (Programa Nacional de Acesso ao Ensino Técnico e Emprego) that merges different programs and contributions in terms of education
Exchange rate policies	The real exchange rate per dollar went from 1.67 at the end of 2010 to 1.84 at the end of 2011 and 2.05 at the end of 2012. Considering the annual averages, there were a depreciation of 17% in the nominal exchange rate of the real per dollar in 2012.*****
Portfolio investment control	Increase in aliquots of IOF over foreign portfolio investment and others

Sources: authors elaboration based on various sources;
* Mello and Rossi (2017)
**Singer (2015)
*** Document "Brasil do Diálogo, da Produção e do Emprego (https://www.fiesp.com.br/brasil-do-dialogo-pela-producao-e-emprego/).
****Ipeadata (accessed 2018)
*****Barbosa (2013)

Table 1 illustrates the correlation between policies demanded by the workers and productive capitalist fractions with the policies implemented by the government. Moreover, it clearly shows the developmentalist characteristics of Dilma`s first mandate with policies towards industrialization, local content, expansion of social and employment policies and finally, macroeconomic actions promoting competition of productive sector.

In the second semester of 2011 the government launched a development project labeled New Economic Matrix (Nova Matriz Econômica) which was letter called by Laura Carvalho (2018) “Fiesp Agenda” due the similarity of the project with the demands coming from the Brazilian main Industrial entity. The project consisted of a policy mix between monetary policy targeting the reduction of the interest rate, exchange rate policy aiming more competitiveness in the external and industrial sector and a fiscal policy targeting to reduce the burden of the productive sector through the tax exemptions and tax reductions. In addition, the government would maintain investments programs in infrastructure and social policies.

The policy aimed to tackle deindustrialization and low-growth by interfering, specially, in two macroeconomic variables – interest and exchange rate - that have been key for the unsuccess of Brazilian development since Real Plan (Bresser-Pereira 2017). Regarding exchange rates, both theoretical studies (Bresser-Pereira, Oreiro, and Marconi 2017) and empirical studies (Rodrik, 2008; Gala, 2008; Ramzi et al., 2012) have been pointing the importance of exchange rate to boost exports and economic activity. Moreover, recent literature have been arguing in favor of taking into account industrial and macroeconomic policies jointly (Cimoli et al., 2010; Bresser-Pereira and Rugitsky, 2016). In the opposite direction, since Real Plan Brazil have been facing an overvaluation of its currency. Before Dilma assume the government, the years 2009 and 2010 was characterized by the valorization of the Real and a "leak" of a large share of domestic demand growth to the rest of the world[5]. All in all, the economic minister Guido Mantega chose to intervene in the exchange rate causing a devaluation[6] from 1,67 in the end of 2010 to 1,84 in the end of 2011 and to 2,05 in the end of 2013 (for annual average exchange rate see table 2).

The exchange rate devaluation would come together with a reduction of the interest rates. A reduction in the interest rate would help to a) reduce currency overvaluation b) reduce the wide gap between Brazilian and international interest rates and c) reduce the cost with interest payments over public debts. In this regard, the government entered a cycle of

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[5] See Barbosa (2013, p. 87).

[6] In the exchange rate Real to dollar.

reduction of the basic interest rate that dropped from 12.5% in august 2011 to 7,25% on April 2012 (for accumulated interest rate see table 2). As illustrated by Singer (2016) that represented a very strong shift since the Selic reached the lowest level since its creation in 1986 representing, in real terms, less than 1% (p.28). Subsequently, the government target to reduce the spreads in the banking system. In the beginning of 2012, the head of the central bank Tombini asserted that the reduction of the spreads is a priority of the government and of the president starting a conflict with the rentier-financier labelled by Singer as "spread battle". Using the domestic public banks, the government increased competitivity forcing the private banks to push down spreads thereby reducing the profit margin of the three main banks (Itaú, Bradesco and Santander) by 6,6% from 2012 to 2013[7].

Table 2: Selected Macroeconomic Variables

Year	2011	2012	2013	2014	2015	2016
Annual GDP growth rate	4,0%	1,9%	3,0%	0,5%	(-)3,5%	(-)3,5%
Investment rate as percentage of GDP	20,6 %	20,7%	20,9%	19,9%	17,8%	16,4%
IPCA	6,5%	5,84%	5,91%	6,41%	10,67%	6,29%
Basic Interest Rate (SELIC - accumulated in the year)	11,6%	8,5%	8,2%	10,9%	13,3%	14,0%
Unemployment rate	6.0%	5.5%	5.4%	4.8%	6.9%	1.1%
Household Consumption	2.5%	2.3%	2.2%	1.6%	-1.5%	-2.1%
Government Consumption	0.4%	0.2%	0.9%	0.4%	-0.2%	-0.3%
Net Exports	-0.2%	1.1%	0.9%	0.5%	-0.4%	-1.1%
Average Exchange Rate (Dollar/Real)	1.76	1.67	1.95	2.16	2.35	3.33

Source: Authors elaboration based on BCB, IBGE and WID (2019).

Besides the interest-exchange rate policies the goal of a competitive productive sector would also count with an active fiscal policy. It consisted in four main policies; a) the Plano Brasil Maior (PBM)[8]; b) the expansion of BNDES, c) the use of tax exemption; and d) reform of the electric sector. The first represented combined industrial policies to foster investment, exports, innovation and competition with focus on sectors with aggregate value. Moreover, it also employed preference to national products in public procurement competition. The

[7] http://bancariosal.org.br/noticia/25632/sob-pressao-cai-spread-do-itau-bradesco-e-santander-no-primeiro-trimestre

second had an important role in financing, administrating and directing investments thorough subsidized credit that reached around BRL 900 billion in total disbursements from 2011 until 2014[9]. The third consisted in a payroll exemption that was first-announced to 15 labor intensive sectors in April 2012 but reached 42 sectors and represented 25 billion annually for the businessman in 2014. Finally, the fourth consisted in the edition of the Provisional Measure aiming to reduce in 20% the cost of electricity in September 2012 (Singer, 2015).

Finally, Dilma's opted to continue Lula's project of development with social inclusion mainly through employment and wage increases that would guarantee sustainable growth of demand with greater equality. The minimum salary was readjusted by 7,9% in 2012 and by 2,64% after January 2013. Moreover, unemployment would have reached the lowest point ever recorded, 6.8%, by the end of 2014 (IBGE 2014). In line with wage policies Dilma also continued to expand social policies like Bolsa Familia and Minha Casa Minha Vida. The first aimed poverty alleviation and reached 14 million families by 2013. While the second aimed to alleviate housing deficit by providing subsides to house purchase therefore facilitating low income families to purchase their houses.

Until April 2013 all policies (macroeconomic, industrial and social) converged and clearly illustrated policies favoring the dominant political coalition between of workers, low middle class and productive capitalist. Moreover, the development plan was very much attending all the demands from the productive (specially industrials) fraction typifying their hegemony. In the other hand, it is also evident the strong conflict created against the financier-rentier represented by the "spread battle" and the sharply reduction in interest rates. However, what appeared to be a solid coalition and economic plan passed by a sharp switch on 17 April when the Brazilian Central Bank reverted from a lowering to an upswing trend in the basic interest rate. It started by raising it from 7,25% to 7.50% and continued increasing until reaching 11,75% in the end of Dilma`s first government and peaked 14,25 on August 31 of 2016. The government and central bank justified the policy as a measured against inflation pressures that was above the target in 2013 and reaching its upper band in 2014[10].

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[9] Moraes (2018)

[10] In 2013 the inflation was of 5,91% and 6.41% in 2014 (the target is 4.5% and upper band is 6.5%). was

Whilst the orthodoxy and rentier-financier behaved as it was a necessary shift the workers and productive capitalists were very upset with the government. Ianoni and Cunha (2018, p. 27) have analyzed the behavior of different entities of the productive capitalists like FIESP, FIRJAN, ABIMAQ, Fecomercio-SP etc. that clearly illustrates the disagreement with COPOM decision to raise interest rate. In the same direction the president of the workers' organization FS, Paulo Pereira da Silva (2013) said "the decision lights up a warning sign for all workers, because […] increasing the Selic will contribute to the reduction of investment in the productive sector, obligating the government to pay more interests for investors[11].

The beginning of the interest rate hike was the main and first change in policy direction. However, it was followed by different policies towards conciliation with the neoliberal coalition. After June 2013, characterized by very large street manifestation against politics, the government started to prioritize fiscal responsibility and to show lower tolerance with inflation. Subsequently, completely shifted economic policy by the indication of Joaquim Levy to assume the economic ministry. The new economic policy after 2014 narrow election represented not only electoral stelionate but a very strong austerity plan.

The analysis of the new direction of economic policies shows the weakening of the developmentalist coalition as well as the fortification of the neoliberal one. In that perspective, the dissolution of the dominant political coalition of Dilma`s first mandate was consummated in the famous FIESP manifestation "I won't pay the duck" and later in the impeachment of president Dilma. However, it started before, potentially during the policy shifted represented by the increase in interest rates on April 2013. The first signal of that was the survey published by the CNI in august 2012 showing 82% of the companies believed industrial policy under PBM were adequate but insufficient to stimulate the industry (CNI 2012). The second and definitive sign was before 2014 election when FIESP president Benjamin Steinbruch gave grade 6 (from 0 to 10) to Dilma`s industrial policy and implied the possibility of voting in another candidate[12].

If the coalition dissolution started earlier, one should not focus only on the impeachment process but understand the movements behind the political coalition during Dilma first

[11] From Morais (2018).

[12] https://www1.folha.uol.com.br/poder/poderepolitica/2014/09/1523956-leia-a-transcricao-da-entrevista-de-benjamin-steinbruch-a-folha-e-ao-uol.shtml

mandate. The question to be made then is why there was a shift to contractionary monetary policy and later to contractionary fiscal policy favoring the opposite coalition interests? Was it necessary in economic terms? Was it a result of power and coordination of the neoliberal coalition or a result of a deterioration inside the dominant coalition? If the second option is more relevant, why would a fraction abandon a dominant coalition that direct policies to its favor?

Section 4: From a developmentalist to a neoliberal coalition

It is evident that a profound change in a dominant coalition comes from different forces since is derivate from conflicts between fractions from inside and/or outside a coalition. In the Brazilian case one can note three different movements; a) the fierce opposition of neoliberal fraction; b) the lack of strong support from the lower classes (workers, sub-proletariat and new middle class) and c) the abandonment of the productive capitalist fraction. Which of those 3 movements were more relevant and detrimental for the dismantling of Dilma`s political coalition?

According to Boito (2016) and Saad-Filho and Boito (2016) the dismantling in the dominant coalition was fundamentally caused by the offensive of the neoliberal forces. Differently from this paper, the authors part from a dominant coalition in which the internal bourgeoise (formed by the domestic productive capitalists and large domestic banks) is the hegemony. In his view, since during Dilma`s first government there was a manifestation against the financial sector, the conflict inside the coalition was eminent. The domestic banking sector together joined the international agencies, the conservative media, conservative parties from the opposition, the upper middle class and parts of the bureaucracy and opened a fierce movement against the minister of the economy and generated sufficient opposition that compromised the dominant coalition.

In another direction Singer (2016) asserts that the fundamental element behind the dismantling of the dominant coalition is the displacement of the industrial capitalists that gradually moved to the opposite coalition. The author, based on views from different Brazilian intellectuals, mention fours aspects to be considered as possible explanatory variables; a) the structural characteristics of the industrial bourgeoise; b) the Kaleckian political aspects of full employment, c) The "competitive coexistence" from China and USA and d) the ideological effect.

The first is related to the imbricated relation between industrial and financial capital and to the rentier aspects of the Brazilian businessman. This dual characteristic would restrict the effort in supporting the productive political coalition. The second hypothesis is related to state intervention to promote and maintain employment. Following Michal Kalecki thoughts, full employment (specially derived from government intervention) harms businessman power (as the treat of unemployment) that opt to use as riot investment strikes. The third is related to productive capitalist dispute behind external policies. While some favors to enter the Transatlantic Trade and Invesment Partnership (TTIP) others favor Mercosul trade and others have preference on trading with China. The fourth explanatory variable concerns the sensitivity of the productive capitalist to arguments and ideology disseminated by the neoliberal coalition. Finally, Singer (2015, p. 50) explains that those elements are not mutually excluding but rather complementary; different elements were responsible to unite different disagreements and dissatisfactions with the president culminating in the gradual dismantling of the dominant coalition.

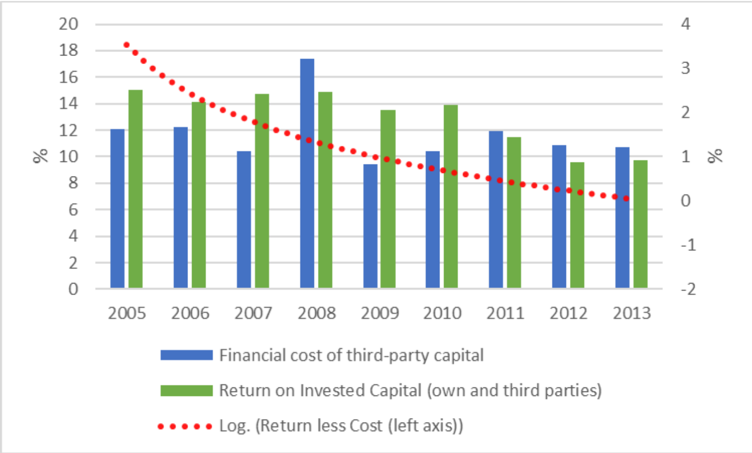
Critics and new evidence

Despite bringing important insights and contributions both authors miss important and fundamental elements to understand the reasons behind the dismantling of the developmentalist coalition. Off course, as stated above, there are different forces causing the crisis, however, it would be fruitful to understand the main reasons behind it. Concerning Boito`s argument on the fierce neoliberal opposition one could argue that this fierce opposition have been there for a long time, that it manifested against Lula in Mensalão crisis and in the aggressive opposition against the interest rate and spread decrease. If the opposition have been losing before something must have change to generate different results. What seems more logical is that first there was a weakening of the dominant coalition, as argued by Singer, creating the windows of opportunity for the opposite coalition to counter attack. In this sense the author is write in arguing that the neoliberal opposition was very relevant for the dismantling of the developmentalist coalition. However, is mistaken in asserting it was the most fundamental force.

In the other hand, Singer (2015) brilliantly describes the hegemony of the productive capitalists during Dilma first government, the intense conflict against the financier-rentier fraction and bring some important arguments concerning the reasons behind industrialist desertion. However, apart from putting his arguments and ideas without mentioning the relevance of each, the author missis some fundamental elements. For instance, the very intense support of the productive capitalist towards a reduction of the basic interest rate and spreads jeopardize the first argument of the author. Even toe exists some intimate relation between productive and financial capitalists the productive fraction still prefers policies favoring their main business. In other words, the support for neoliberal policies aren't *per se* the preference of the productive capitalist fraction and other elements must have happened to make them opt for the *second-best*. The second argument is also fragile as Laura (2018, p. 76) shows that the productive fraction didn't stop investing because of "investment strike" due to an increase in workers force but rather because there wasn't any reason for productive capitalists to realize investments. She shows that low investments were a result of lack of demand and difficulty to fulfill financial commitments. And we add below that the profit rate wasn't in a satisfactory level.

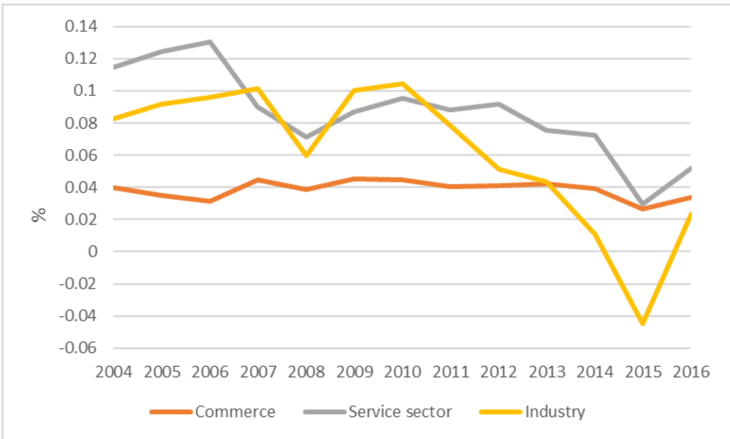
Apart from those limitations the literature misses two fundamental elements; a) the new-developmentalism argument that the profit rate was below the satisfactory level – a prerequisite for the support of the productive capitalist fraction and b) The development-stagnation dichotomy (Furtado, 1964, p. 66) in which a long term coalition between workers and capitalists is only viable during a successful development strategy and thus a plan that promote a satisfactory growth rate.

Graph 1: The Financial Cost of Debt VS the Return on Invested Capital



Source: authors elaboration based on Rocca (2014)

Graph 2: Profit margin – by economic activity



Source: IBGE – elaborated by Center of new-developmentalism studies

Graph 1 shows the financial cost of acquiring debt and the return on invested capital (ROIC) that considers both return on equity and return on third party capital. It is measured only listed companies and Petrobras, Eletrobras and VALE are excluded. The graph shows a constant fall in the investment rentability and more important, it shows that during 2011 to 2013 the return on investment was lower then the financial cost of taking up debt. Therefore, during this period there weren't motives for the realization of investments whatsoever.

Graph 2 shows the profit margin[13] of different productive economic activities between 2004 and 2016. One can easily see that the industry sector passed through a sharp decline after reaching its peak in 2010. Moreover, industry profit margin became the lowest after 2013 and negative between 2014 and 2015. The case appears to be that the development plan characterized by the "Nova Matriz Economica" wasn't successful in providing a positive environmental to productive capitalist neither an investment enhancing environment to promote economic growth.

A second factor behind the productive capitalist desertion is exactly the weak economic performance. As we argued in the theoretical section, the intrinsic conflict between workers and capitalists does not exclude the consciousness that there are common interests. The affinity of interests comes to the fore, in particular, when one poses the problem of the development-stagnation dichotomy (Furtado, 1964, p. 66). In this perspective one would expect willingness towards a political coalition between workers and capitalist (productive) as long as this front is promoting economic growth. Table 2 illustrated that it wasn't the case. If we considered the 7,5% GDP growth rate in 2010, Dilma`s government increased GDP growth rate only in 2013 and the average growth rate of her first mandate was only 2.35%. This fact was political used by the opposition and liberals to pressure the government by disseminating the economic plan was achieving only a "pibinho" (small growth rate).

The question then is why the strategy was unsuccessful. Even toe there are different interpretation its undeniable that the New Economic Matrix was established under a very adverse external scenario. Between 2010 to 2014 important partners have showed low growth rates (USA and European Union) or decreasing rates of growth (China and Argentina), especially in 2011 and 2012. Moreover, there were a fall in commodities price in 2012, specially in metallic products one of the main items in Brazilian export basket. Apart from the negative external environment there is strong debate regarding the policies implemented by the government. Since our interest is the phase in which there were a political coalition and

[13] The profit margin is calculated by subtracting total expenses (TE) cost from total revenues (TR) divided by total revenues ((TR-TE)/TR).

development plan to enhance industrialization, we wont focused on the academic discussion about economic policy after 2014[14] election.

Concerning economic policies under Dilma I the main criticism focused on tax exemption since it didn't accomplish the task of stimulating investment and in the same time compromised the fiscal balance of the government. Carvalho (2018, p.73) from the data presented by Felipe Rezende on financial deterioration of non-financial firms shows that when companies aim to reduce its debt degree, tax exemptions serve to recompose losses and not increase investments. Hence, a better economic stimulus to economic growth and domestic firms should have been done throughout direct public investments due its higher multiplier effect (Serrano and Summa, 2015; Orair et al., 2016). In this case, the fiscal responsibility advocated by the new developmentalism goes in line with the expansion of the investment capacity of the state (throughout reducing current expenditure) or the capacity to finance investment (Marconi and Oreiro 2016). Another commonly and well accepted critics was Dilma`s excess of intervention especially the control over electric-energy prices.

In addition, new developmentalist have been arguing to the long-term structural problem caused by macroeconomic prices on deindustrialization (Bresser-Pereira, 2007b; 2017). In this sense it is obvious that short term policies would not bring expected outcomes. Therefore, the short term of the economic plan (if one takes into consideration the interest rate policy – from April 2011 to October 2012) is already an important element for its unsuccess. Regarding exchange rate policy, it should also be taken into consideration that: a) The depreciation wasn't sufficient[15] b) a devaluation is contractionary in the short term and expansionary in medium-long term Lavoie (2014, p. 520); c) was done during a period of weak growth of the rest of the world and thus in a period in which the benefits from a currency devaluation was jeopardize and d) the devaluation was done during a period with a combination of unfavorable inflationary chocks from agricultural and service prices (Barbosa, 2013, p. 86) that together with currency depreciation pressured Brazilian inflation.

[14] Orthodox and neoliberal academics blame previous state intervention (on interest and Exchange rate) and fiscal irresponsibility (Barbosa Filho, 2017; Pessoa, 2017) while heterodox economist argued austerity plan aggravated economic performance (see Serrano and Summa, 2015)

[15] According to Nassif et al., (2018, p. 3) "in April 2011 the "optimal" real exchange rate should be in the range of R $ 2.90 / US $, against an observed level of only R $ 1.59 / US $, there was then a (mega) 82% in relation to the required competitive level to support the process of development". In the same direction, Marconi, (2012,p.667) estimate that the industrial equilibrium exchange rate should be at US$ 2.75 in 2011.

Conclusion

The paper aimed to analyze the developmentalist coalition that supported Dilma`s government and understand why the hegemonic fraction, the productive capitalist, have abandoned the government weakening Dilma`s support base. It has been shown that the analysis of different classes and fractions of society helps to understand government actions and thus helps to understand a very important fact in recent Brazilian history such as the impeachment. Hence, the paper aims to contribute to fulfill the lacunae in the literature by using a sociologic (instead of a neo-institutional) framework to analyze political coalition.

Besides providing a theoretical discussion on political coalition and an empirical portrait of the political coalition in Brazil the paper has two main contributions; a) has showed that the fundamental element behind the abandonment of the productive capitalist fraction from the dominant coalition is that their profit rate was below the satisfactory level (as argued by the new developmentalist) and b) brought back Furtado`s development-stagnation dichotomy in which explains that political coalition between workers and capitalist are viable to (and only if) provide economic growth which was not the case under Dilma`s government.

The new evidence is also helpful in terms of political strategy since shows that: a) developmentalist governments should be more articulated with workers and lower classes in order to resist moments of economic crisis in which different capitalist fractions tend to unify themselves and b) development coalition must have long term strategic plan that in the same time that provide social justice also stimulates productive investments and industrialization and thus, should not fall into exchange-rate populism.

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Appendix 1:

Classes	Workers	Middle Class		Capitalist Class		
		"New"	"Traditional"	Productive	Rentiers	Financiers
Actors	Dispossessed of means of production, they sell their labor force as a means of subsistence. Represented by CUT, Central Sindical	Wage earners mainly in the service sector - teachers, cops, salespeople and administrative assistants	Public servants, middle entrepreneurs and self-employed and high-medium -skill wage earnings	Industrial, agricultural and service sector. (FIESP, CNI)	Inheritor elite , doesn't work* and live through rents	Executives of multinationals, bankers, financial market employees.
Interesses/ Policy prescriptions	a-) Salary readjustments, labor protection, minimum wages. b) social pol. like poverty and income reduction, education, health)	Public University, Social policies	Public University, Mantainance of social status	a)Flexibilization of labor laws and tax reduction. B) industrial protection. C) Interest rates reduction and currency devaluation	Financialization and integration with the global financial system, Free capital mobility, Privatizations, Independent Central Bank. Exchange appreciated, low inflation, high interest rate. Flexibilization of working conditions and pension reform.	
power and resistence methodos	Strikes and social movements	Social movements		Veto Power (investments) and lobby	Veto Power (stocks and debt) and lobby	
Democracy	Social democracy	Social democracy	Liberal democracy	Social democracy/ Liberal democracy	Liberal democracy	
Ideology	Socialism and developmentalism	Liberal/developm entalism	Neoliberal	developmentalism/ neoliberal	neoliberal	