Brazilian Journal of Political Economy, vol. 44, nº 2, pp. 215-240, April-June/2024

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

Políticas desenvolvimentistas em economias financeirizadas: contradições e impasses do caso brasileiro

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RESUMO: Este artigo discute a aplicabilidade de políticas econômicas e outras ações governamentais desenvolvimentistas às economias financeirizadas. Mobiliza os princípios regulacionistas teórico-metodológicos para uma macroanálise histórica e institucional. Após uma breve revisão dos conceitos da Escola da Regulação, incluindo o "regime de política econômica" (Théret, 1992; Lordon, 2002; Boyer, 2015), o caso brasileiro é analisado como um exemplo notável de compatibilidade institucional com a acumulação rentista-financeira em detrimento da acumulação de capital fixo produtivo. Vários indicadores deste caso são apresentados.
PALAVRAS-CHAVE: Desenvolvimento econômico; estrutura institucional; escola de regulação; financeirização; economia brasileira.

ABSTRACT: This paper discusses the applicability of economic policies and other developmentalist governmental actions to financialized economies. It mobilizes the theoretical-methodological regulationist principles for a historical and institutional macro-analysis. After a

* An initial version of this text was presented at the *4th Workshop on New Developmentalism*, held at Getulio Vargas Foundation – FGV-SP, in São Paulo, in 2019, and at the *XXIII Brazilian Congress of Economics* sponsored by the Federal Council of Economics in Florianópolis (Santa Catarina State) in the same year. We appreciate the comments received there, as well as the observations of two anonymous reviewers of this journal, which helped us to improve the text. It is part of broader scope research developed by the authors and funded by the National Council for Scientific and Technological Development (CNPq).

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brief review of the concepts of the Regulation School, including the "economic policy regime" (Théret, 1992; Lordon, 2002; Boyer, 2015), the Brazilian case is analyzed as a remarkable example of institutional compatibility with rentier-financial accumulation to the detriment of the accumulation of productive fixed capital. Several indicators of this case are presented.
KEYWORDS: Economic development; institutional structure; regulation school; financialization; Brazilian economy.
JEL Classification: E02; E6; O1; O2; O3.

1. INTRODUCTION

In this paper we depart from the assumption that the process of socioeconomic development is not a natural phenomenon governed by transhistorical and deterministic forces. In other words, it does not occur spontaneously. In capitalist economies, as we know, companies and markets organize themselves essentially to obtain profit and, consequently, they do not have, *ex ante*, developmentalist objectives.

This perspective puts the State and its institutions at the center of development issues, assuming irreplaceable functions. One of great importance is the maintenance of economic growth with an equitable distribution of income, along trajectories that are sustainable enough to raise living standards.[1] A key variable in this context is investment in productive fixed capital.[2]

Nowadays there are capitalist economies which are prisoner of a structural and macroeconomic trap 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 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.

In this environment, the economic and political power of the banking and finance sector and the rentier elites grows. One of the most serious implications of this higher power is the capture of national States by the interests of high finance,[3] which begin influencing economic policy and the definition of the public budget,

[1] Today, these macroeconomic challenges are also associated with those related to the preservation of the environment. However, we start here with the assumption that, if there is political will, technical conditions exist to continue the growth process, which is so important for not developed countries, and simultaneously preserve the environment. Ignacy Sachs' notions of sustainable development and eco-development come close to our position in this regard.

[2] Innovation is another important variable regarding economic development, but it is, to a certain extent, related to the dynamics of fixed capital itself. In the analysis that follows and especially in section 4, the focus will be on productive fixed capital.

[3] In relation to this issue, the analysis based on regulationist principles converges with the *new developmentalist* approach, which has been constructed in recent decades in Brazil. See about Bresser-Pereira (2016) and Bresser-Pereira, Paula e Bruno (2020).

and, in a second stage, tends to advance over the provision of public services such as health, education, social security, etc. – the social policy financialization stage (Lavinas, 2017).

Using Keynesian concepts, one can argue that the financialization processes elevate the liquidity preference of economic agents to a paroxysm, thus reducing the effectiveness or even canceling the expected effects of fiscal, monetary, and exchange rate policies. Consequently, the promotion of consumption expansion can take place without providing the same boost to investment, which leads to the replacement of productive savings (those destined to the formation of fixed capital, creating new assets) with unproductive savings (those invested in financial assets, without creation of new assets).

The socioeconomic development produced by financialization has serious microeconomic and sectorial implications. At the corporate level, it transforms management practices, redirecting them toward the objectives of creating maximum value for the benefit of owners and shareholders. At the sectorial level, it submits directly productive sectors, such as industry, to the pressures of the banking and finance sector. In summary, developmentalist or neo-developmentalist policies may not have the expected effectiveness in an environment provided with an institutional compatibility with rentier-financial accumulation. The recent Brazilian experience seems to illustrate this situation.

Our objective in this work is, therefore, twofold: a) to theoretically discuss the existence of modes of regulation that promote or block the development process; and b) to focus the recent Brazilian history to show it as an illustration of the case of blocking the development process. For this, besides this introduction, the article is composed of four more sections. Section 2 reviews the theoretical-methodological foundations of the *Regulation School* (RS), including the concept of *economic policy regime*. Section 3 discusses the pro and antidevelopment configurations of the combinations of economic policy regimes and accumulation regimes. The Brazilian case is analyzed in section 4. Section 5 provides concluding remarks.

2. INSTITUTIONAL AND MACROECONOMIC REGULARITIES: THE STRUCTURE DETERMINES THE CONJUNCTURE

According to the principles of the French Regulation School (RS), institutions create rules and regularities in the evolution of aggregated production and demand. They are the prerequisite for the insertion of the theoretical assumptions themselves in the concrete reality of existing economies, which operate with institutional structures that are potentially capable of providing markets with density and efficiency, without the economic agents needing to know the logic and nature of the current economic model (an assumption that is the exact opposite of that suggested by the rational expectations principle in new classical macroeconomics).

2.1 Theoretical-methodological foundations: macroeconomic regulation

Within the framework of the regulationist analyses, the institutional architecture is known as a *mode of regulation*.[4] This conceptual term 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* – hereinafter referred to simply as an *accumulation regime* or *a growth regime.*

Despite macroeconomic theory in its Keynesian, Kaleckian, and Kaldorian forms expressing several of these macrodynamic regularities, 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. As we will try to demonstrate, the current Brazilian economy is an economy of this type.

Five major areas of macroeconomic regulation are analytically delimited. 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 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. (Keynes [1936] 1988, p.166).

[4] It is important not to confuse the concept of *regulation* developed by the RS with the concept of *regularization*, which refers to the deliberate actions of the State to stimulate or discipline economic behavior through specific legislation.

This means that, for analytical purposes, Keynes assumed that the configurations of the five IFs could be considered stable. 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 need to be understood.

2.2 Elasticities and institutional configurations

Macro-regularities depend on structural conditions, but these conditions change over time. The institutional forms enable the derivation of macroeconomic relations endowed with a certain statistical permanence and, thanks to this, 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 can be expressed, from the analytical viewpoint, 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 accumulation regime. 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 the 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 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. These two types of explanation derive 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.

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). It must be compatible and, more frequently, complement to the growth regime and its corresponding mode of regulation, and to the nature of the political regime. For example, according to this view, the so-called "macroeconomic tripod" (inflation targets, floating exchange rate, and permanent primary fiscal surpluses) is one of the main compo-

nents of the institutionalized economic policy regime for and by the interests of the banking and finance sector – as a hegemonic sector.

Table 1 shows two types of economic policy regime: Keynesian and neoliberal-monetarist. In Keynesian, 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. In neoliberal-monetarist, price stability is strictly pursued. Under this regime, fiscal policy is considered ineffective, and monetary policy must be entrusted to central banks that are independent of the political sphere. Wage earners are outside the hegemonic bloc and are under the control and leadership of financial capital.

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.

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. From the diagnosis of destabilization of the mode of regulation, the economic policy can anticipate new regularities and favor the emergence of new IFs.

It is in this sense that the State emerges as an institution superior to other institutions because it has political power that, although limited, can 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. In this context, as Lordon (2002) observed, the *economic policy regime* can be defined as being constituted by the following elements:

- *Forms of intervention* – refers to the set of instruments manipulated in the frameworks of the economic policy regime: public budget, currency, exchange policy, income policy, etc.
- *Institutional intervention framework* – concerns 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. This also includes examining the structure of the State apparatus, detailing the attributions of powers, the doctrine-forming authorities, or the bearers of legitimacy, etc.

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

CHARACTERISTICS \ ECONOMIC POLICY REGIMES		KEYNESIAN-DEVELOPMENTALIST	NEOLIBERAL-MONETARIST
Stability Periods	Type of economic policy	• aggregate demand management policy • fiscal progressivity • social security	• monetarist policy • market incentives
	Hierarchy of institutional forms	• implied hegemony of wage earners,[5] agreed upon with industrial capital	• hegemony of financial capital
	Degree and type of democracy	• encompassing political coalition	• capture of the State by powerful groups
Periods of crisis	Reform strategy	• reinforcement of public intervention • income policies • indicative planning • industrial policy	• privatizations • liberalization • openness to global competition

Source: Own elaboration, inspired by Boyer (2015, p.181, fig. 24).

- *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 cases in which it can, deliberately or not, promote its dismantling.

[5] The "hegemony of wage earners" means here that, in the Keynesian-developmentalist economic policy regime the wage relation is not only at the center of the accumulation regime (which is always true if we are talking about capitalism), but also constitutes the determining institutional form of its dynamics, through the expansion of direct wages (indexed to productivity gains) and indirect wages (expansion of welfare state institutions, which account for the long-term reproduction of workforce). We will come back to the question.

3. ECONOMIC POLICY REGIMES AND GROWTH REGIMES FROM A HISTORICAL PERSPECTIVE: PRO AND ANTIDEVELOPMENT CONFIGURATIONS

An economy structured for and by the obtaining of profit, is not characterized, *ex ante*, as presenting social or economic development objectives. The improvement of living conditions for the people can only arise as a collateral effect, a derived consequence. Companies are open entities, and investments are made because entrepreneurs – based on profit expectations – decide to make them. Development objectives (employment, improvement in distribution, etc.) can only be properly championed by national States. This perspective puts the State and its institutions not as a supporting actor of development, but as its inductive pole.

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

Beside the governmental institutions, the formulation and implementation of economic policy also presupposes sectors of economic activity and other social actors expressing their demands through the institutional practices of representative democracy or through political pressures over the State apparatus. Therefore, there is no neutrality of economic policy. Economic policies normally impose higher financial costs on certain sectors than on others. But the greatest problem occurs when its effects undermine productive sectors that are fundamental to scientific-technological innovations and productivity gains. The prominence of the political power of the banking and finance sector and of the rentier elites leads to the capture of national States by their interests.

3.1.1 Keynesian policy and demand-led growth regimes

The historical analyses developed in regulationist studies have shown that the success of the Keynesian policy in the period known as "the Golden Age" of capitalism (from the post-second war to the early 1970s) 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 trade protectionism; and wage relation based on the Fordist social commitment, which established the connection between wages and productivity.

The wage relation was the hierarchically dominant institutional form and the main axis of the industrial accumulation that marked this period. Finance, on its part, remained at the service of economic development. 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 their results.

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. When the Fordist 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, the IFs that are hierarchically dominant or superior are the international insertion and the monetary-financial regime. In this institutional architecture consolidated in Brazil and in various countries, the State and the wage relation become hierarchically subordinated IFs. Studies on this issue are unanimous in stating that, in financialized economies, national States lose autonomy to formulate economic policies.

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

In an effective theory of development, price and financial stability should not be chosen as the single or most important objective. Other equally fundamental objectives must be recognized, among others: full employment and an adequate environment for the accumulation of productive fixed capital; improvement of the living conditions of the people stimulating consumer market and, therefore, investment and economic growth; harmonization of the liquidity needs of savers and owners of capital with the need to immobilize resources in productive activities.

4. THE BRAZILIAN CASE: A REGIME OF ACCUMULATION INAPPROPRIATE FOR DEVELOPMENTALIST POLICIES

The Brazilian case is particularly notable as an example of compatibility in favor of short-term financial accumulation and to the detriment of the industrial sector. The institutional structures that support and reproduce the financialized accumulation regime were constructed – from the beginning of the 1990s onward – according to the interests of high finance, a characteristic that remained throughout the governments of Fernando Henrique Cardoso (FHC), Luiz Inácio Lula da Silva (Lula), and Dilma Vana Rousseff (Dilma), despite the differences that separate them. Bresser-Pereira, Paula e Bruno (2020) shows the existence in Brazil of a coalition of rentier-financier interests in the maintenance of high interest rates. So, the consequent macroeconomic environment was much more favorable to rentier and patrimonial accumulation than to the accumulation of productive fixed capital, resulting in low and unstable economic growth for more than three decades.

Table 2: Economic policy regimes and economic theories

ECONOMIC THEORIES / ECONOMIC POLICIY REGIME	NEOCLASSICAL-WALRASIAN OR ORTHODOX	KEYNESIAN-DEVELOPMENTALIST
Monetary policy	• focused on inflation control (inflation target) • currency and long-term interest rate neutrality • under the management of independent central banks	• liquidity management and credit incentives • non-neutrality of money • should also contribute to full employment
Fiscal policy	• ineffective (crowding-out) • under financialized economies, it becomes a means of generating cash for the central government	• effective demand management (crowding-in) • under demand-led growth regimes, an effective tool to stimulate the level of activity and promote full employment
Exchange policy	• determined by the financial market in floating exchange rate regimes	• exchange and capital flows controls are necessary to promote industrial development
Trade and financial liberalization	• priority to high financial mobility and the rentier accumulation of short-term capital	• should be linked to a national economic development strategy
Government social spending	• minimization of the social State to favor rentier and financial accumulation based on public and private indebtedness	• justification of the power to tax • they are the expenditures of legitimacy of every democratic rule of Law (Welfare)
Hegemonic bloc	• led by bank-financial capital	• based on the political pact between industrial capital and wage labor

Source: Own elaboration.

4.1 Insertion of the Brazilian Economy into Financial Capitalism[6]

The Brazilian economy has been a part of the history of financialization since its beginning. Initially, this participation took place in a passive manner, when it served the international financial accumulation by configuring the demand that was lacking to a growing financial wealth eager for valorization; later becoming a victim of this same process, following the brutal increase in interest rates in 1979

[6] In accordance with Paulani, 2008 and 2017.

and the explosion of the external debt crisis in the 1980s. Finally, in an active manner, when, from the mid-1990s onward, it took steps to enter the era of financialization as an "emerging financial power" or, in our terms, as "an international platform for financial valorization" (Paulani, 2008).

The entire institutional framework that today underlies the functioning of Brazilian capitalism was, therefore, built on the principle of responding precisely to the interests of financial wealth, particularly creditors and external investors. The rise of the Workers' Party (PT) to the federal government with Lula's election in 2002, gave rise to hope that there would be some reversal of this agenda, but, despite the adoption of high impact social policies,[7] that did not happen.

It is this context, therefore, that 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 time in office) and the private sector (reform of the Bankruptcy Law during Lula's tenure), the changes in the general social security regime (FHC), and in the public servants' own regimes (Lula), and last but not least, the adoption of a macroeconomic prescription aggressively focused on the benefit of financial wealth, based on fiscal austerity and absurdly high real interest rates (FHC and Lula).

Considering these initiatives as a whole, we can talk about the existence in Brazil – since at least the 1990s – of a *hegemony of financial capital*, mainly the *banking and finance sector*.[8] It is worth emphasizing the Gramscian character of this hegemony: permissive institutional structures guarantee its effectiveness and constant reproduction in formatting economic policy, with permanent endorsement of the State, regardless of the ideological position of the party that leads the federal executive.

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 during practically the entire period that includes the mandates of FHC, Lula and Dilma (1995-2016). In the next subsections, we will present in more detail several of these indicators, but it is worth anticipating here a single information capable of illustrating our argument. The ratio between non-monetary finan-

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[7] High-impact social policies manage to alleviate, for periods of time, impactful social problems such as inequality and extreme poverty, but do not affect the structural determinants of the accumulation regime. Considering the set of economic policies throughout Lula's two terms, the only initiative that deviated from the neoliberal agenda was the Growth Acceleration Program (PAC, for its acronym in Portuguese), a public investment program focused on infrastructure launched in 2007. But it was an isolated measure, inserted in the same institutional framework in favor of financial wealth. We will return to the discussion of PAC.

[8] According to Chesnais (2016, p.5), financial capital is defined as the concentrated money capital operating in financial markets. In this sense, banking and finance sector is a very important component but financial capital is broader than it.

cial assets and gross domestic product (M4-M1/GDP)[9] went from 0.33 in 1995 to 0.93 in 2016, almost a three-fold increase in 21 years. A perverse byproduct of this situation was the accelerated process of deindustrialization that the country experienced.[10]

Nonetheless, despite the permanence of this modality of macroeconomic regulation prioritizing financial accumulation, it cannot be said that the governments of FHC on the one hand, and those of Lula and Dilma on the other, have been the same. In fact, over time, the latter were differentiating themselves from their predecessors because, combined with the continuity of this agenda, high impact social policies were being adopted. The famous *Bolsa Familia* (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 beneficiaries of the social security system, and firmly affecting the income distribution.

At the same time, several other initiatives were occurring, which contributed equally to the creation of a less unequal social fabric. Of note are those programs related to the ease of access to higher education by the lower-income classes, e.g., the *University for All Program* (PROUNI), the creation of 18 new public universities, and the improvement of the *Fund for Financing Higher Education Students* (FIES). There were also countless other social programs, 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 *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 *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 around 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 such as domestic workers, which is extremely numerous in the country.

But would all these policies be enough to characterize as *neodevelopmentalist* the period beginning in 2003, 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

[9] M4 refers to the value of the totality of financial assets, monetary assets (M1) included. As M1 constitutes the money supply of the economy, it is necessary to deduct its value from M4.

[10] There is a vast amount of Brazilian literature on this issue. See, for example, Marconi and Rocha (2012), and Hiratuka and Sarti (2015).

that no – at the very least because there seems to be an incompatibility of principle between financialization and developmentalism or neo-developmentalism. 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 overvalued 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, that in advance would allow to organize the State intervention to rescue industrial growth and to change the accumulation regime.

4.2 Neo-developmentalism in a financial economy?

The first sign that the Lula's victory would not correspond to a change in the way the State acts 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. Although it spoke about a resumption of growth it did not relate these variables around a clear and articulated project of institutional and structural changes 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. 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 the latter increases the importance and the presence of the State in the economy. 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, because the resources that remunerate financial wealth come from the same source as those necessary to honor these increased social commitments, i.e., the monopoly of taxation held by the State. But while export-led growth coupled with the multiplier effect of the 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. Initially avoided through the expediting of subsidies to the sectors with the greatest multi-

plier 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.

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 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 in the price of commodities exported by the country, began to produce very poor results, culminating in the tiny rate of 1.0% GDP growth in 2014.[11]

The worsening of the economic scenario led to turmoil in the political scene, making the country practically split going into the presidential elections of 2014. Both models were there in dispute: on the one hand, to provide continuity to the *conciliatory model* then in progress; and, on the other hand, the breaking away from this model and the adoption of a pure neoliberal agenda.

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.

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 *A Bridge to the Future* – a document produced by the political party of Vice President Michel Temer (PMDB). Its essence was the complete redemption of the neoliberal agenda (the losing model in the 2014 elections), purifying it from the social outbursts of the PT governments.[12]

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 were extended to all sectors by the Congress sometime later). Although related to initiatives that make up what might be called *industrial policy*, this last measure is closer to *supply side economics* than to any kind of developmentalist practice.

PT's economic policy at that time – except for 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 advancement of the so called 4.0 industry. Worse still, the viability

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[11] Initially estimated by IBGE at 0,5%.

[12] See about this Paulani, 2016.

of all these economic policy devices was made at the expense of public investment, whose reduction was enormous in the first term of Dilma.

In summary, it can be said that the effective result of this, which came to be called 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*.[13]

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 (PAC). From that moment onward, the federal government's spending on gross fixed capital formation (GFCF) went from around R$ 27 billion annually in 2006 to around R$ 66 billion in 2010 (values at 2023 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. It gave a positive signal to the private sector and real growth of the economy in 2010 was 7.5%. But the crisis had not been overcome, either internally or externally.

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.[14] 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 Gross Fixed Capital Formation/GDP ratio, which had been growing steadily since the third quarter of 2006. Measured in the accumulation in four quarters, this ratio fluctuated around 20.7% between the third quarter of 2011 (after adoption of Dilma's policy) and the third quarter of 2013 but beginning then a downward trend remaining between 14.6% and 15.6% in the subsequent years. For its part, also measured in the accumulation in four quarters, real GDP growth began, from the last quarter of 2013, a continuous downward trajectory. Between the first quarter of 2015 and the second quarter of 2017, growth rates were uninterruptedly negative; then, they were again positive, but hardly surpassing 2.0%.

Summarizing, we can say that, taken together, the PT years reveal an erratic character: total fidelity at the start to the canons of orthodox prescriptions; fol-

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[13] The point here is that it is not enough to simply make changes in the conduct of economic policy if the institutional environment of the accumulation regime is maintained. Amid a completely financialized economy, Dilma tried a simulacrum of industrial policy, which simply did not work. Focusing on the case of Brazil, Nassif, Bresser-Pereira and Feijó (2018) show the necessary connection between the macroeconomic regime and industrial policy, so that the latter can operate effectively.

[14] All the data mentioned in this paragraph come from the new series of the national accounts (baseline 2010) published by the IBGE.

lowed 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.

In all its different stages, PT government marched to the tune of the conjuncture, without threatening the status quo. The developmentalist inspiration and the heterodox experiments here and there were doomed to failure, amidst an institutionality constructed for the benefit of financial accumulation. The following subsections present examples of the relationships between institutional structures components of the Brazilian mode of regulation and the corresponding macroeconomic performance.

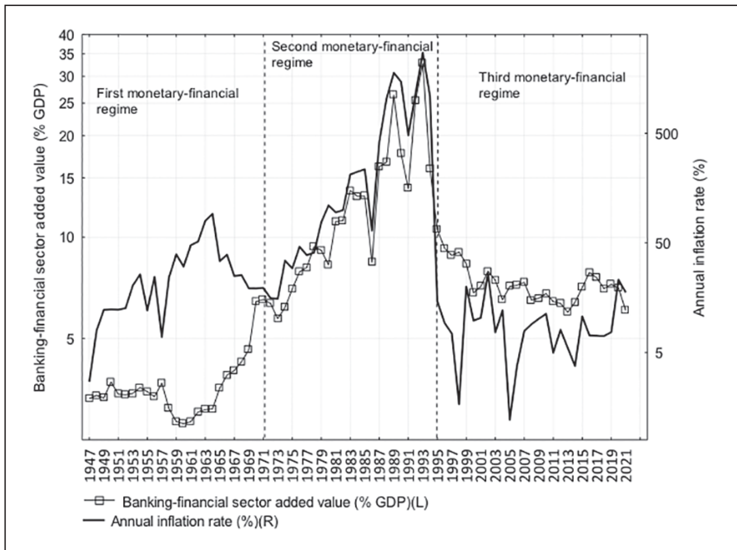
4.3 First example: inflation and monetary regimes

The functioning of the monetary circulation 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 of last resort mechanisms, to contain financial crises; and d) the rules regarding financial circulation with foreign countries. All these normative and institutional arrangements are part of the *monetary-financial regimes*, and each accumulation regime has its own monetary regime, whose mutual determinations with the productive and distributive structures invalidate the hypothesis of neutrality of money in short and long term. The transformation of an accumulation regime has historically coincided with significant changes in the structures codifying the monetary regimes.

Figure 1, below, shows the evolution of the inflation rate together with the evolution of the share of the added value of the banking-financial sector in the Brazilian GDP. There are clearly three periods corresponding to three monetary regimes. In the first regime, there is no statistically significant relationship between inflation and financial AV. In the second regime, the two variables evolve in a positive correlation, and in the third period, again there is no statistically significant relationship between the two variables.

Making it clear, the periodization presented here for the three monetary-financial regimes was obtained by graphical analysis, considering the way in which the series of financial added value in % of GDP and the annual inflation rate evolved. Data analysis clearly shows three distinct relationship patterns. In the first period, there is no empirically evident or stable correlation between the two series, which is explained by the fact that the banking and financial sector is still very underdeveloped. In the second period, the correlation is evident and is explained by the full operation of the monetary correction mechanism, which was adopted at the end of the previous period and gave rise to inertial inflation. This second regime ends with the advent of the Real Plan. In this new regime, again there is no statistically significant long-term relationship between financial AV and inflation. As it was replaced by high interest rates, inflation is no longer the basis of financial accumula-

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.

tion (as it had been in the previous period). These high interest rates are charged by the banking and financial sector, both in the private sector (companies and families) and in the public sector. It is this element that characterizes the current monetary-financial regime, the basis of Brazilian financialization, which can be classified as *usurious financialization* due to the high share of capitalized interest income held by rentier classes and bank owners.

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. As showed here, 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. Table 3 below summarizes the relationship among monetary regimes, banking-financial accumulation, and inflation in Brazil in a long-term context.

Table 3: Three monetary regimes result in different long-run elasticities of financial added value to inflation*

Monetary Regimes	Structural Characteristics	Long Run Elasticities of Financial Added Value (AV) to Inflation	Economic Policy
Regime 1 (1947-1970)	Underdeveloped banking and financial system and absence of inertial inflation	Coefficient: - 0.113874 Std. Error: 0.105002 t-Statistic: - 1.084.497 Prob.: 0.2917 There is no statistically significant long-term relationship between financial AV and inflation	Orthodox policy of fiscal adjustment, based on monetarism, to combat inflation (Government economic action plan – PAEG 1964-1966)
Regime 2 (1971-1994)	High inertial inflation expands the added value of the financial sector and promotes concentration and banking accumulation	Coefficient: 0.290273 Std. Error: 0.015769 t-Statistic: 1.840.824 Prob.: 0.0000 There is a statistically significant long-term relationship between financial AV and inflation	• Inflation is inertial and monetarist orthodox policy is ineffective to control it
Regime 3 (1995-2019)	In the post-Real period, inflationary gains are quickly replaced by high real interest income (usurious gains) and banking accumulation reaches a new level	Coefficient: - 0.024839 Std. Error: 0.047106 t-Statistic: - 0.527301 Prob.: 0.6030 There is no statistically significant long-term relationship between financial AV and inflation	Other transmission channels respond to inflation control, such as the tendency towards real appreciation of the exchange rate

(*) The estimates of long-term elasticities of financial sector added value (in % GDP) in relation to the inflation rate were obtained through cointegration analysis, according to the method developed by Pesaran, Shin and Smith (2001). The method defines a new cointegration test based on an autoregressive distributed lag model (ARDL), the *bounds test*. The results show the existence of a long-term relationship between financial added value and inflation in the period 1970-1994. The second monetary-financial regime is the only one in which the two series cointegrate.
Source: Own elaboration.

4.4 Second example: changes in production structure and employment

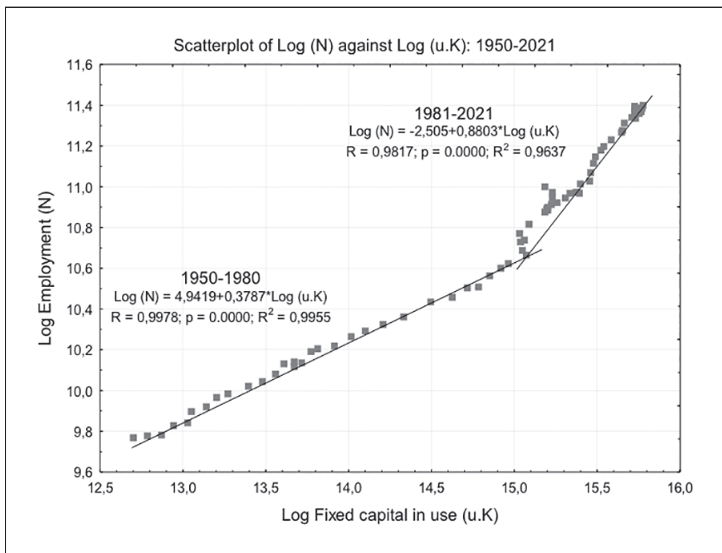
Another way of understanding the transformations of the growth regime is to verify the behavior of the relationship between the growth of the supply of productive fixed capital and the corresponding level of employment. Figure 2 below shows a scatter diagram, in which two periods can be seen, which differ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

From 1950 to 1980, the "engine" of the growth regime was the strong industrial expansion. However, the employment coefficient is lower in industry than in other sectors of activity, and this is reflected in the elasticity of employment in relation to fixed capital in this first period, which had a value of 0.379. Therefore, a

1% increase in the supply of productive fixed capital expands the level of employment by 0.38%, on average. However, the accelerated industrial expansion was able to absorb the growth of potential labor supply, without pressuring unemployment rates.

Since1981, the Brazilian economy began exiting its trajectory of high growth and entered a period of great macroeconomic difficulty, with the beginning of a long process of deindustrialization. The early deindustrialization led to a rapid expansion of the services sector, which is labor-intensive, and this enabled the growth of employment. For this reason, the employment elasticity of fixed capital grows enormously, reaching 0.8803. In this situation, a 1% growth in the supply of productive fixed capital expanded employment by 0.88%. This structural feature explains the ease of job creation in the subperiod 2004-2013.

Figure 2: In the 1980s, a new regime of deindustrializing accumulation emerged in Brazil*



(*) K = stock of productive fixed capital; u = capacity utilization rate; N = employment. Source: Own elaboration.

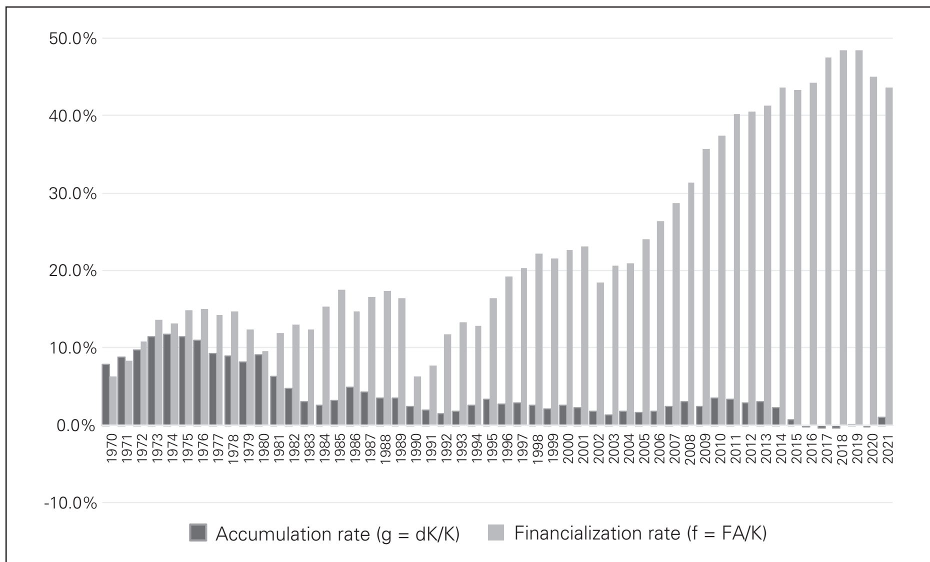
4.5 Third example: the disconnection between financial accumulation and accumulation of productive fixed capital

In Figure 3, the rate of accumulation of productive fixed capital (g) was plotted together with *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. If the second ratio was divided by the first, one could obtain a *financialization index* that measures the degree to which financial assets replace

fixed assets, to the detriment of economic growth. It is also possible to see three periods in the evolution of these two macroeconomic series.

In the first period, 1970-1980, the two series remained very close to one another. The existence of the financialization process cannot be considered here, because – as shown in Table 4 – for each R$ 1.00 invested productively, there was R$ 1.24 invested in financial assets. In other words, in this period, the financialization process can be called *incipient*. 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 were R$ 4.05 invested in financial assets. In the third period, 1995-2021, the financialization rate was much higher; in consequence for each R$ 1.00 destined to productive investments, R$ 17.28 are invested in finance. The financial accumulation reached a paroxysm, halting the socioeconomic development of Brazil.

Figure 3: Financialization rate and accumulation rate of net fixed productive capital in Brazil - 1970-2021*



(*) K = total stock of productive fixed assets; FA = total stock of non-monetary financial assets. Source: Own elaboration; the authors would like to thank economist Dario Rodrigues da Silva for his help in updating this graph, originally published in Bruno and Caffé, 2015.

Table 4: Taxonomy of financialization in the Brazilian economy and economic policy regimes (1970-2021)

PERIODS / CHARAC-TERISTICS	1970-1980	1981-1994	1995-2021
Financialization index	1,24	4,05	17,28
Taxonomy	Incipient	Restricted	Extended and high
Origin	–	Inflationary gains derived from the generalized indexation of contracts from the public indebtedness	Interest income and other financial gains with financial assets derived from internal and private public indebtedness Private finance subverting public welfare provision
Macroeconomic and social implications	Institutional conditions for indexation practices via monetary correction Rising concentration of income and wealth Fall of the wage share	Development of rentier accumulation thanks to "financial currency" or "indexed money": elitized financialization High inflation with stagnant productive investment Low levels of wage share, compared to the international average	Government attempts to reconcile the interests of banking and financial sector with social policies Stabilization of inflation (1995) and moderate recovery of productive investment as of 2004, but strong fall from 2015 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.

Source: Table 2 updated, in Bruno and Caffé, 2017.

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, the poor 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 was enormous, with high household defaults.[15] 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.

With the improvement in personal and functional distribution of income through the minimum wage and the average wage and employment growth in Lula period and Dilma's first term, finance expanded its market for extracting interest income: it moved from domestic public debt to the private indebtedness of households and non-financial companies. Thus, the Brazilian financialization came close the kind of financialization that characterizes the developed countries, with the difference that in Brazil the cost of credit is much higher. Combined with the small income level of most of the Brazilian workforce,[16] the expansion of an extremely costly credit offer as a public policy proves to be incapable of becoming a sustainable basis for popular consumption.[17]

Therefore, despite the possibility of occasional growth in consumption for low-income families, the mass financialization in Brazil is a socially negative macroeconomic phenomenon, with a combination of very high cost of credit, low wages, unemployment, and increase in the precariousness of labor relations. During the Lula/Dilma period, these consequences were partially offset by the set of high-impact social policies adopted.

4.6 Fourth example: international insertion and employment elasticities

In Table 5, there are two patterns of macroeconomic regularities corresponding to different modes of regulation and accumulation regimes. Under the accumulation regime of the 1985-1989 period, when the economy had not yet entered the globalization context, the employment elasticity of GDP was 0.377. Under the new

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[15] For example, the commitment of household income to debt service, already high in 2005 (19.6%), rises to around 30% in 2012. See about this subject Gentil and Bruno (2022).

[16] According to the IBGE PNADC, currently, 82% of employed people in the Brazilian economy have a real monthly income of up to R$ 2,700.00 (around US$ 540.00), a situation that has remained practically the same in the last quarter of a century.

[17] Recent data from the National Confederation of Commerce (CNC), show that the share of Brazilian families with debts reached 78.5% in June/2023 (a record number), with 29.2% of them having overdue debts, while the average share of income committed to debt reached 29.6%.

institutional form of international insertion (1995-2001 period), this elasticity more than doubles, reaching 0.839 in the 2000s.[18]

One of the explanations of this huge alteration is the change in the composition of output, with the services sector becoming dominant. As it is a labor-intensive sector, the sensitivity of employment to changes in GDP should be higher than that of a high growth regime based on the capital-intensive industrial sector.[19] Despite the rapid introduction of new communication and information technologies, services are still characterized as labor- intensive work processes.

Table 5: 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	Employment elasticity of GDP	Employment elasticity of wage
1985-1989	0.377	0.208
1995-2001	0.726	-0.375
2002-2019	0.839	-0.170

Source: Own elaboration.

In the period 1950-1981, the "engine" of the economy was the industrial sector, based on the strategy of industrialization by import substitution, but from 1981 onwards, the rapid expansion of the services sector is observed, as the industry regresses its participation in the total product. Between 1981 and 1994, high rates of inertial inflation predominated, with the Brazilian State ceasing to be the promoter of industrial productive accumulation. In the post-Real Plan period, extremely high real interest rates and the intensification of international competition prevail.

On the other hand, the employment elasticity of wage went from 0.208 to -0.375 and in the last period -0.170. The sign 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. The new institutional form of international insertion of the Brazilian

[18] The estimates were made based on monthly frequency series, so that for the first estimated period (1985-1989) there are 48 observations. For the second (1995-2001) there are 72 and, for the third (2000-2019), 204 observations. The monthly GDP series provided by the Central Bank of Brazil was used. The salary (average real income) and the level of employment were obtained from the monthly employment surveys (old and new PMEs) and the continuous national survey by household sample of IBGE (PNADC-IBGE). Periodization was obtained using the *CUSUM* and *CUSUM of squares* tests, and the representative coefficients of long-term elasticities, using cointegration analysis with the Johansen method and considering the natural logarithms of these two series in the econometric specifications.

[19] Data from the System of National Accounts (SCN-IBGE) show a continuous and sharp drop in the participation of the manufacturing industry in the Brazilian GDP from 1981 onwards, moving from a maximum of 19% in 1973 to reaching 10% of the GDP in 2021. Concomitantly, the SCN-IBGE data show a rapid and precocious advance in the participation of the services sector in the GDP, due, precisely, to the equally precocious fall of the participation of the industry. Despite its different subsectors, the services sector has a higher employment rate than the industrial and agricultural sectors, notably regarding the latter subsector focused on exports of agricultural commodities.

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 these institutional changes.

In the first period, besides being lower, the wage cost was not an obstacle to the generation of employment. In accordance with the Keynesian principle of effective demand, employment and wages maintained a positive correlation. 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 – i. e., they are *wage societies* (Aglietta and Brender, 1984, and Castel, 1995).[20]

In this last statement, there is no appeal to sub-consumer theses, since the variable of aggregate demand that has autonomy to promote the sustained growth of the product continues to be the investment, which mass financialization constantly tends to depress. What is meant by wage societies is simply that it is the basis of reproduction for the entire system. The PNADC of the IBGE reveals that around 70% of the people employed in Brazil are salaried employees with and without a formal contract, from the private and public sectors. As Marx argues: "Wage labor is, therefore, a necessary condition for the formation of capital and remains the constant and necessary presupposition for capitalist production."[21]

5. CONCLUSION

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. The "engine" corresponds to the productive and distributive structures that, in conjunction, determine the characteristics of the accumulation regimes.

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[20] Aglietta and Brender (1984) were the first to use the term *wage societies*, later made better known by Billaudot (1996, 2001) and Castel (1998). It is the wage relation that distinguishes the capitalist mode of production from previous modes, which already harbored, under other forms, the monetary relation, and the mercantile relation.

[21] This is our translation of the following passage in German: "Lohnarbeit ist also notwendige Bedingung für Kapitalbildung und bleibt die beständige notwendige Voraussetzung für kapitalistische Produktion." Available at: https://www.marxists.org/deutsch/archiv/marx-engels/1863/resultate/1-mehrwert.htm.

Concerning the Brazilian case, the structural and macrodynamic incompatibility between the accumulation regime and the development-oriented State actions is noteworthy. But this is explained by the behavior of rentier elites and bankers, who became economically and politically stronger in the 1980s, and governed the institutionalization of a new pattern of international insertion. In the subsequent decade, they forced the State to prioritize its interests preventing a productive insertion based on industrial exports. For this reason, Brazil is experiencing one of the largest de-industrializations in economic history. These interests predominated even with the rise of the PT to power, keeping the accumulation regime unchanged.

As Aglietta (2001) observed, the trajectory of capital accumulation depends on its 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 were incapable of threatening the status quo in place 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. So, in the light of the Brazilian recent experience we learn that, if the engine of the economy continues to be the financial sector and the financial wealth, there is little point in changing the steering wheel (the economic policy) to a developmentalist direction.

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