

De Conti, Bruno; Breda, Diógenes; Welle, Arthur

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Capitalism in Brazil and COVID-19: crisis, repercussions and responses to the pandemic

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Capitalism in Brazil and COVID-19: crisis, repercussions and responses to the pandemic

Bruno De Conti¹, Diógenes Breda², Arthur Welle³

Abstract: The Covid-19 pandemic had different impacts across the globe, according to both country structure and conjunctural responses from local governments. This article aims to characterize the main traits of capitalism in Brazil, with a focus on its evolution over the last 20 years and the way these characteristics shaped both the impacts of the pandemic and the responses to the so-called “Corona-crisis”. The hypothesis is that the socioeconomic impacts of any world crisis tend to be higher in peripheral countries, but the government reactions to such crises are important in determining the socioeconomic dynamics that evolve. The analysis is attentive to the interactions between aspects which are inherent to the capitalist system, aspects related to the Brazilian colonial history and the resulting insertion of Brazil in the global economy, and aspects related to the Brazilian current context – in particular the socioeconomic and political crises since 2014, the coup d’état against President Dilma Rousseff in 2016 and the outbreak of the pandemic in a country governed from 2018 to 2022 by a far-right government. The main conclusions are that the pandemic provoked no major changes, but rather accelerated ongoing movements and deepened some old traits of the Brazilian economy, especially its vulnerability, its structural heterogeneities, the precariousness of the labor market and social inequalities.

Keywords: Covid-19 pandemic; Brazil; Globalization; Capitalism; Peripheral countries.

JEL codes: E61; I18; L16; P11

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Contact:

Bruno De Conti, Associate Professor, Institute of Economics, University of Campinas, Brazil.

deconti@unicamp.br

Diógenes Breda, Visiting Researcher, Institute of Economics, University of Campinas, Brazil.

diobreda@gmail.com

Arthur Welle, Visiting Researcher, Institute of Economics, University of Campinas, Brazil.

arthurwelle@yahoo.com

¹ Associate Professor at the Institute of Economics, University of Campinas, Brazil.

² PhD in Economics and Visiting Researcher at the Institute of Economics, University of Campinas, Brazil.

³ PhD in Economics and Visiting Researcher at the Institute of Economics, University of Campinas, Brazil.

1. Introduction

The analysis of a capitalist economy has to be conducted over three different levels of abstraction. First, the capitalist system has general traits, which are pervasive to all countries in the world adopting this mode of production, such as an inherent need for economic growth, a potential trend for the development of social inequalities, a high instability, etc⁴. Obviously, these traits may be alleviated through regulations and state interventions, but they are inherent to this economic system.

In a second level, the world economy is divided between a core and a periphery, and there are some characteristics which are common to the position countries occupy in the globe (Prebisch, 1949). In fact, these characteristics have been evolving all over the history, but some of them are still very clear. For instance, the classical works by the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) indicated that core countries were specialized in the production of manufactured goods, whilst the peripheral ones were devoted to the production of agricultural and mineral goods. With the reorganization of the world economy into Global Value Chains (GVCs), this dichotomy is not valid anymore, but the essence of the argument is still valid, i.e. peripheral countries are specialized in tasks with lower value-added, lower technology and, frequently, higher work-intensity⁵. At the same time, a high level of technological development is still a trait of the core economies.

Finally, we must discern the characteristics which are specific to each country, arising from its history, its institutional organization, its societal configuration, its political model, etc. Particularly important for the current research, these national specificities may not be neglected in the analysis aimed at understanding the impacts and the reactions to global crises.

Under this framework, this article aims to characterize the main traits of capitalism in Brazil, with a focus on its evolution over the last 20 years and the way these characteristics shaped both the impacts of the pandemic and the responses to the so-called "Corona-crisis". The hypothesis is that the socioeconomic impacts of any world crisis tend to be higher in peripheral countries, but the government reactions to such crises are important in determining the socioeconomic dynamics.

The investigation of the main traits of capitalism in Brazil will be organized in the following dimensions. First of all, we will discuss the Economic System, dividing the analysis into: i) Integration in Global Production; ii) Integration in Global Finance; iii) Macroeconomic Regime. Second, we will investigate the Social System of Production in the country, organizing the debate in the following axes: i) Social Blocs; ii) Corporate Governance; iii) Labor Market. Finally, we will inspect some Key State Policies, namely: i) Welfare State; ii) Industrial Policy.⁶

Following the framework indicated above, the analysis will be attentive to the interactions between aspects which are inherent to the capitalist system, aspects related to the Brazilian colonial history and the resulting insertion of Brazil in the global economy, and aspects related to the Brazilian current context – in particular the socioeconomic and political crises since 2014, the coup d'état against President Dilma

⁴ Authors under very diverse theoretical frameworks, such as Marx (1887) and Keynes (1936) share this perception about the general traits of the capitalist economy.

⁵ For discussions on the New International Division of Labor, see for instance Charnok and Starosta (2016). For discussions on the hierarchies and value transfer within the GVCs, see Suwandi (2019).

⁶ It is important to highlight that these dimensions and the theoretical framework used in the present article have been developed in conjunction with the partners of the DFG project mentioned above.

Rousseff in 2016 and the outbreak of the pandemic in a country governed from 2018 to 2022 by a far-right government.

Besides this Introduction, the article is organized in three sections. Section 2 discusses the general traits of capitalism in Brazil, examining the pre-pandemic period and, where necessary, including a brief historical overview. This analysis is organized in the dimensions indicated above (economic system, social system of production and key state policies). Section 3 examines the period of the pandemic, the main impacts in the Brazilian economy, the responses from the national government and, ultimately, to what extent the crisis is provoking important changes in the characteristics and the organization of capitalism in the country. To conclude, we present some Final Remarks.

2. Capitalism in Brazil: historical overview and the pre-pandemic period

It is impossible to understand the main characteristics of the Brazilian economy if we do not consider its colonial history. After three centuries serving as a colony of exploitation⁷ and almost four centuries under a work regime based on slavery⁸, the legacies of this period are not only visible, but are still the basic fundamentals of the Brazilian society (e.g. authoritarianism, racism, extreme inequalities, external orientation, high vulnerability). The delimitation of the national territory, the creation of some very basic institutions, and the organization of production, were all made to serve to the interests of the metropolis – and a tiny local economic elite related to the metropolis. In a very eloquent expression, Prado Jr (1981, p. 28) states that the Brazilian economy and society were shaped by a “sense of colonization”, and understanding it is still crucial for a proper apprehension of the main traits of capitalism in Brazil, the aim of this section. As indicated above, the analysis will be divided into three main axes: the economic system, the social system of production and key state policies.

2.1 Economic System

2.1.1 Integration in Global Production

Completely led by Portugal, the integration of Brazil in the world economy was typical of an exploited colony, providing raw materials to the imperial power, while progressively serving as a market for their manufactured goods. The most important exported raw materials changed over history – from brazilwood⁹ to gold, rubber, coffee and sugar-cane –, but this general picture was unchanged for at least four centuries.

In the 20th century however, an important industrialization process was carried out in the country, with some achievements and many failures. In spite of the appearance of some industrial plants beforehand¹⁰, the watershed is undoubtedly 1930, when Getúlio Vargas took office, enacting a set of “developmentalist policies”.¹¹ In view of the lack of imported products provoked by the 1929 crisis and in the quest of national sovereignty, the Vargas’ government started promoting national industry. The idea was to combine

⁷ The Portuguese invaded the (current) Brazilian territory in 1500 and independence was declared in 1822. The Brazilian emperor after independence was the son of the Portuguese King, making it very explicit that there was a line of continuity with the colonial period.

⁸ Brazil was the last country to abolish slavery in America (1888).

⁹ It is very revealing that the name of the country comes from a commodity. In fact, the wood of the “pau brasil” tree was the first good that was explored in this territory.

¹⁰ Considered by Celso Furtado (1959) as “spontaneous” industrialization, stimulated by the gains obtained with the exports of agricultural goods.

¹¹ Getúlio Vargas is one of the most important figures of the so-called Latin American developmentalism.

the creation of public companies – in strategic sectors, such as mining, steel and oil – with a huge stimulus for the development of private companies¹², both ultimately aimed at the substitution of imported goods by nationally produced ones. During his two periods in office¹³, Vargas created some institutions which are still very important for the Brazilian economy, namely Companhia Vale do Rio Doce (mining), Companhia Siderúrgica Nacional (steel), Petrobras (oil and gas) and the Brazilian Development Bank (BNDE¹⁴).

In spite of some downturns, this “import substitution policy” (ISI) was kept for five decades, from 1930 to the 1980s¹⁵. During this period, Brazil developed an industrial sector which was relatively diversified – if compared with other peripheral countries – and undoubtedly the most developed industry in Latin America. For exports, the share of manufactured goods¹⁶ reached a peak in 2000, with 57,3.0% of the total – Latin America being the most important destination.

Yet, this industrialization process was generally not able to create a mature and modern industry in the country, at least in the most dynamic and high-tech sectors. In fact, the “external debt crisis” – which led to the so-called “lost decade” of the 1980s in Latin America. The subsequent process of opening up the economy (from the 1990s onwards)¹⁷ and finally a macroeconomic regime which was not favorable to the industrial sector¹⁸ resulted in a long process of deindustrialization in the country¹⁹.

In conjunction with these domestic processes, world industry went through crucial transformations from the 1970s, given the advent of the 3rd Industrial Revolution, but also – and chiefly – the reorganization of the production in the so-called GVCs²⁰ –. Altogether, this huge industrial transformation, along with domestic hinderances to a further development of the industrial sector and the rise of China as the main industrial producer of the world, resulted in a gradual reversal in the timid achievements Brazil had obtained. In 2022, the share of manufactured goods in total Brazilian exports was 25.8%, much lower than it had been in the end of the 20th century (in 2000 it was 57.3%)²¹. More importantly, the imports of industrial goods accelerated, again making the Brazilian trade surplus completely dependent on raw materials (Figure 1). In 2019, manufacturing industry had a deficit of US\$ 420.4 billion and the trade surplus was obtained thanks to the surpluses on agriculture (US\$ 387.3 billion) and the extractive industry²² (US\$ 394.7 billion)²³. It is undeniable therefore that Brazil suffered a “regressive specialization” (Coutinho, 1996), or a “reprimarization” of its productive sector (Salama, 2016).

¹² Many of the important national economic groups – which will be discussed in subsection 2.2.2 – were established with a strong support by the national government, especially during the Vargas era.

¹³ Vargas stayed in office from 1930 to 1945 (part of it under a dictatorship), and later from 1951 to 1954 (when, amidst a political turmoil, he committed suicide).

¹⁴ Acronym in Portuguese for “Banco Nacional de Desenvolvimento Econômico”. The “S”, for “social”, was added in 1982, giving rise to the current acronym (BNDES).

¹⁵ One crucial change however was the adoption of a policy to rely also on the foreign capital for the industrialization process (details in subsection 2.2.2).

¹⁶ The so-called “transformation industry”, which excludes the extractive industry.

¹⁷ Along with a lack of effective industrial policy, as discussed in subsection 2.3.2.

¹⁸ The macroeconomic regime which was implemented in Brazil in the 1990s will be discussed in details in the subsection 2.1.3.

¹⁹ For details, see Salama (2016).

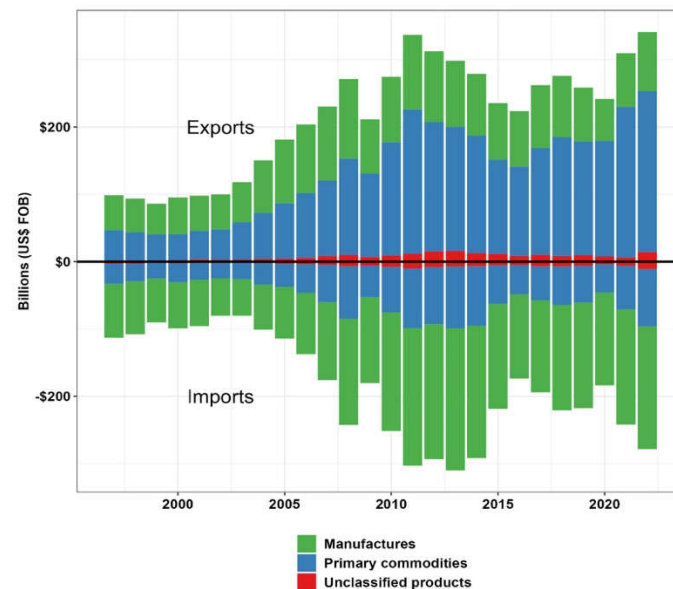
²⁰ For details, see Unctad (2015).

²¹ Data from Comex/Brazil. Methodology for product aggregation based in Basu (2011).

²² The extractive industry is related to mining and oil.

²³ Data from the Brazilian Central Bank (BCB).

Figure 1. International Trade by sectors. Brazil, 1997-2022 (US\$ Billions FOB)



Source: Authors' elaboration based on data from Comex/Brazil and the methodology for product aggregation proposed by Basu (2011).

When we take into consideration the participation of Brazil in world industry, this regression becomes even clearer. According to data from the United Nations Industrial Development Association (UNIDO) and the World Trade Organization (WTO)²⁴, the share of Brazilian exports in the global exports of industrial goods declined from 0.9% in 2005 to 0.4% in 2020. Regarding the value-added in the industrial sector, the Brazilian share is a bit higher, but still declining, having gone from 2.3% in 2005 to 1.3% in 2020 (CNI, 2022). It shows very clearly the failures of the upgrading process undertaken in the country for more than fifty years (from 1930 to the 1980s). After all, in the first decades of the 21st century Brazil is linked to the GVCs only in the sectors of agriculture, food and beverages, and the extractive industry. For all other sectors, the integration is not only preponderantly in low value-added and low-tech tasks, but in a condition of total dependency on decisions taken by the headquarters of the multinationals. It is therefore a very dependent integration²⁵, which is certainly not adequate for a project of social and economic development²⁶.

²⁴ Data compiled by Brazil's National Industry Confederation (CNI).

²⁵ The multinational capital has a dominant presence in the most dynamic branches of Brazilian manufacturing sector since the Import Substitution Industrialization (ISI) period. It was part of the strategy for a rapid industrialization implemented since Juscelino Kubistchek's government (1956-61) and the main idea was that the presence of multinationals would create spillovers for the development of other industrial sectors in the country.

²⁶ As a matter of fact, Brazilian per capita GDP (PPP) was 78.6% of the South Korean per capita GDP (PPP) in 1990 and in 2021 it is only one third of it. In regard to Germany, this ratio went from 33.8% to 27.4% (data from the World Development Indicators database of the World Bank).

2.1.2 Integration in Global Finance

Brazil's integration in global finance must be understood through a twofold perspective, one which is historical and relates to the current phase of the capitalist system. Concerning the first, the International Monetary and Financial System (IMFS) is strongly asymmetric (Carneiro, 1999; Prates, 2002; Fritz, Paula and Prates, 2018; Herr and Nettekoven, 2021;) and Brazil occupies a peripheral position in this system. As for the second, it is imperative to perceive the degree of adhesion of the Brazilian economy to the so-called financial globalization (Chesnais, 2005).

As discussed above, in the 1990s Brazil started following the precepts of the so-called Washington Consensus, opening its economy both in the productive and financial spheres. In the financial sphere, the process was characterized domestically by a liberalization of the financial markets, and internationally by a relatively fast removal of the regulations which impeded the access of residents to the global market, and of non-residents to the domestic market. Amidst a long list of measures (for details, see Penido and Prates, 2001), it is worth mentioning the facilitation for foreign direct investments (FDI) in the Brazilian banking sector, the allowance for non-residents to invest in public bonds in the domestic market, the simplification of the procedures for residents to transfer resources and hold assets abroad, and the reforms and unification of the exchange market. In spite of a deceleration in the pace of the reforms, they were not interrupted – let alone reverted – not even during the Workers' Party (PT²⁷) governments. By the beginning of the 21st century Brazil had already adopted the second type of financial integration in the taxonomy proposed by Akyüz (1993), having allowed residents to raise funds at the international market and non-residents to invest in the domestic market (first stage of integration, related to the inward transactions); and residents to transfer resources abroad and non-residents to borrow at the domestic market (second stage, related to the outward transactions)²⁸.

Predictably, in the course of the last decades the average financial flows to Brazil (and from Brazil) have increased, but with a lot of volatility – notably in portfolio investments and other investment categories. As a result, both the stocks of wealth of residents abroad, and of non-residents domestically have substantially increased (Figure 2). At the end of 2019, Brazil's International Investment Position (IIP) was globally negative of US\$ 789.7 billion, corresponding to 42.2% of the country's GDP in that year²⁹ (Figure 2). Very importantly, this IIP has a clear profile: due to the asymmetries of the IMFS, non-residents usually allocate their resources in Brazil in a search for high yields and gains, but given the risks involved in this investment, they normally acquire short-term assets – or assets with a liquid internal market. At the end, a large share of Brazil's external liabilities is short-term – or easily negotiable in the domestic market. Unlike many other peripheral countries however, Brazil no longer has significant external debt. Nevertheless, the share of public bonds held by international investors reached the level

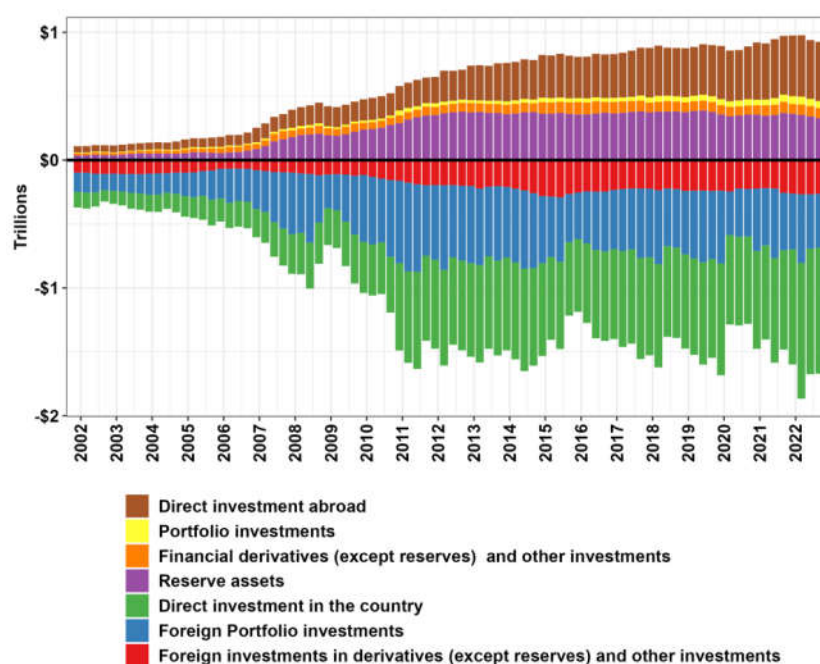
²⁷ Acronym in Portuguese for “Partido dos Trabalhadores”.

²⁸ The third and final stage of integration concerns the allowance for domestic transactions in foreign currency, and will be discussed in details in subsection 3.2.2.

²⁹ It means that in 2019 the total external liabilities exceeded the total external assets in US\$ 789.7 billion. Data from BCB.

of 20% in 2015³⁰, creating a permanent threat of capital flight³¹. On the other hand, the largest share of Brazilian external assets are international reserves, which constitute a buffer against the potential volatility of the international financial markets, but have very low yields.

Figure 2. International Investment Position. Brazil, 2000-2022 (US\$ Trillions)



Source: Authors' elaboration based on data from BCB.

This propensity of international investors to allocate a part of their portfolios in Brazil – and in the periphery as a whole – is very sensitive to international liquidity preference (or, in prosaic terms, the general “sentiments” of the global markets). This liquidity preference for peripheral assets is to a large extent determined by exogenous factors – e.g. global economic growth and the monetary policy in the US – and defines the alternation of moments of “appetite for risk and high returns” and moments of “search for liquidity”, in which the international investors abandon peripheral assets and run for highly liquid ones (especially US Treasuries, which are the safe haven for global financial wealth). Since these movements are collective – given the “herd behavior” (Keynes, 1936), which is the common behavior of the international investors –, they configure the different phases of the international liquidity cycles (De Conti, 2011; Carneiro and De Conti, 2022).

As a consequence, the Brazilian economy is completely subject to these international cycles, which have no relation to what is happening domestically, but define the access of the country to the international financial markets. A part of this influence of the cycles over the Brazilian economy is clearly observed through the analysis of the

³⁰ In 2015 Brazilian public bonds lost the “investment grade”, so the share of public bonds held by international investors started declining. In early 2020, it reached around 9.5%, a level which is much lower than it had been five years before, but still non-negligible when it comes to the risks associated to a reallocation of portfolio of these non-residents.

³¹ Nevertheless, these bonds are denominated and settled in national currency, what corresponds to a big difference in regard to countries in which the external debt in hard currency is high.

financial account. Yet, there are new channels of connection which are less visible, but increasingly important, particularly related to the effects of the cycles over the external assets and liabilities³². After all, the international liquidity cycles engender cyclical changes also in the prices of the assets and liabilities and, very importantly, in two key macroeconomic prices: the exchange rate BRL/USD and the country's basic interest rate. In the end, these oscillations in the value of the external assets and liabilities create wealth effects in the Brazilian economy which may have strong impacts over the aggregate consumption and investment; the propensity of foreign investors to invest in the country, to repatriate profits or to disinvest in the country; the availability of credit, etc.

In sum, the integration of the Brazilian economy in the global financial system determines a high vulnerability of the national economy to the oscillations of the world economy, reducing national autonomy and creating the potential for economic vulnerabilities.

2.1.3 Macroeconomic Regime

In the above mentioned “lost decade” of the 1980s, Brazil – along with many other Latin American countries – went through a hyperinflation process. In the worst year (1989), the annual inflation rate reached 1973%.³³ Throughout the decade, many plans were implemented to curb the inflation, but success was obtained only after the Brady Plan which, through the renegotiation of the external debt in 1989, resumed the access of Latin American countries to the international capital market. This access to international liquidity allowed the implementation in Brazil, in 1994, of the Real Plan, which had as one of its main pillars a managed exchange rate regime. Through a full indexation of the economy to a new unit of account which was pegged to the US dollar (the URV), and later the replacement of the national currency for the Brazilian *real* (BRL), which was linked to this unit of account, the government was finally successful in the fight against hyperinflation.

Since this same year, however, several countries in the world were hit by crises related to a halt in international capital inflows and a consequent mistrust in relation to their managed exchange rate regime – Mexico in 1994, East Asia in 1997, Russia in 1998. Suffering the contagion of these crises and the increasing speculation against the exchange rate BRL *versus* USD, Brazil had finally to abandon the peg and adopt, in January 1999, a floating exchange rate regime. In addition to this flexible exchange rate regime, the Brazilian government adopted in the following months the two other legs of what came to be known as the “macroeconomic tripod”, which is still the basis of the macroeconomic regime in the country, namely, an inflation targeting regime and a fiscal policy aimed at obtaining primary surpluses³⁴.

This means that for more than twenty years – and through very diverse governments³⁵ – Brazil has had a macroeconomic regime which is based in this tripod: inflation targeting, the quest for public sector primary surpluses and a floating exchange

³² The novelty comes mainly from the importance of the international investors in the Brazilian market – notably in what regards the stock market and the public bonds market – and the high volatility of the exchange rate and the interest rates.

³³ Data from the Brazilian Institute for Geography and Statistics (IBGE in the acronym in Portuguese).

³⁴ The “primary” budget balance means the net result of the “non-financial” public incomes and expenditures; in practice, it means the net result of the public sector before the payment of the interest rates related to the public debt.

³⁵ From the center-left governments of Lula and Dilma Rousseff to the far-right government of Bolsonaro.

rate regime. Following the assumptions of Mundell's "impossible trinity"³⁶ – but coated by the new clothes of the New Macroeconomic Consensus –, the theory behind this macroeconomic tripod claims that since the exchange rate is free to float, monetary policy may be used to bring the inflation rate to its target. In reality, it does not work in this smooth way, since the exchange rate in Brazil is extremely volatile – due to the country's financial integration discussed above – and the pass-through from the exchange rate to the domestic prices is very high³⁷. In the end, monetary policy must avoid high currency depreciations, consolidating therefore a *de facto* "dirty flotation" exchange rate regime³⁸.

Ultimately, this regime created a trend towards high interest rates and appreciated currency in Brazil³⁹. The high level of the basic interest rates is a historical problem in the country – having some roots also in the hyperinflation period –, but given the permanent threat of capital flight (and therefore currency depreciation) which hangs over most peripheral countries in the context of financial globalization, it reaches now a paroxysm. In fact, in most of the recent decades, the Brazilian basic interest rate fixed by the central bank was above 10% per year (Figure 3). As for the exchange rate, the effects of the boom of commodity prices in a country where exports of agricultural and mineral goods are very high, along with the perception of the short-term benefits of a "strong currency" for the purchasing power of the population determined an appreciated currency in Brazil in most of the last decades. In our opinion, this combination of high interest rates and low exchange rate⁴⁰ was very harmful for the Brazilian productive structure⁴¹ and for the long-term perspectives of economic growth⁴².

During the last decades, the main component of the aggregate demand driving growth is household consumption⁴³ (Figure 4). Nevertheless, there are some nuances and some oscillations over time that are worth mentioning. Firstly, in most of the first decade of the new century, exports were also an important driver for demand. This is related to the high dynamism of the world economy before the outbreak of the global financial crisis in 2008, and to the corresponding boom in the commodities prices, mentioned above. Lula's government (2003-2010) used this favorable international context to implement some national policies which at the end were capable of fostering internal demand, engendering for a while an economic growth which was internally-led. The most important policies were "Bolsa Família", the cash-transfer program aimed at combating

³⁶ Based on Mundell, the "impossible trinity" states that it is impossible for a country to obtain simultaneously three objectives of economic policy, namely, an open financial account, a fixed exchange rate regime and an autonomous monetary policy. For details, see for instance Eichengreen (1994).

³⁷ Given the high penetration of imports, the oligopolies in some sectors and also the links of the managed prices to the exchange rate (in some cases, a legacy of the hyperinflation period).

³⁸ Showing the plausibility of the proposal by Flassbeck (2001), according to which there is no impossible trinity, but rather an impossible duality, since the opening up of the financial account harms the monetary policy autonomy, regardless of the exchange rate regime. More recently, Rey (2015) argued in the same direction.

³⁹ By "appreciated currency" we mean an exchange rate level which stimulates imports and discourages exports.

⁴⁰ "Low" considering the exchange rate in the format BRL/USD, as we do in this article.

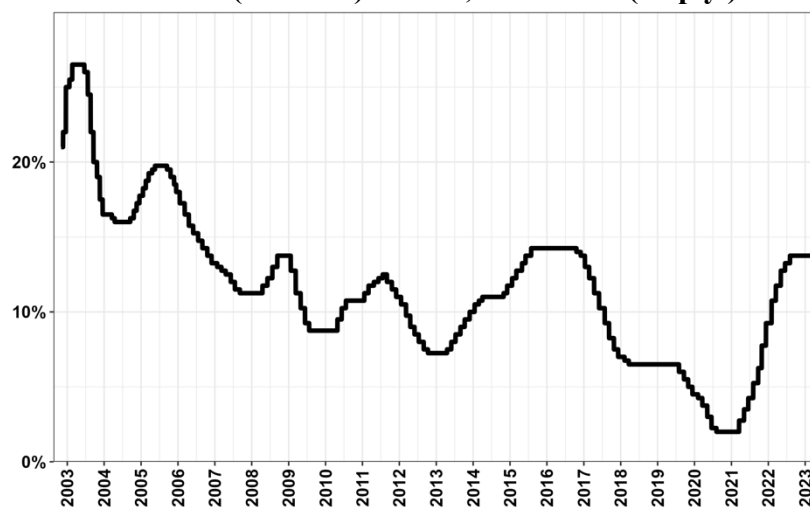
⁴¹ Accentuating the trend of structural regression, discussed above.

⁴² Even if in the short-term the currency appreciation may be expansionary – especially due to the increasing purchasing power of the population –, in the long run it tends to be harmful for economic growth, given its effects on the productive structure.

⁴³ This is what happens in most countries in the world, since the share of household consumption in aggregate demand tends to be the highest (in the case of Brazil, it is around 65%).

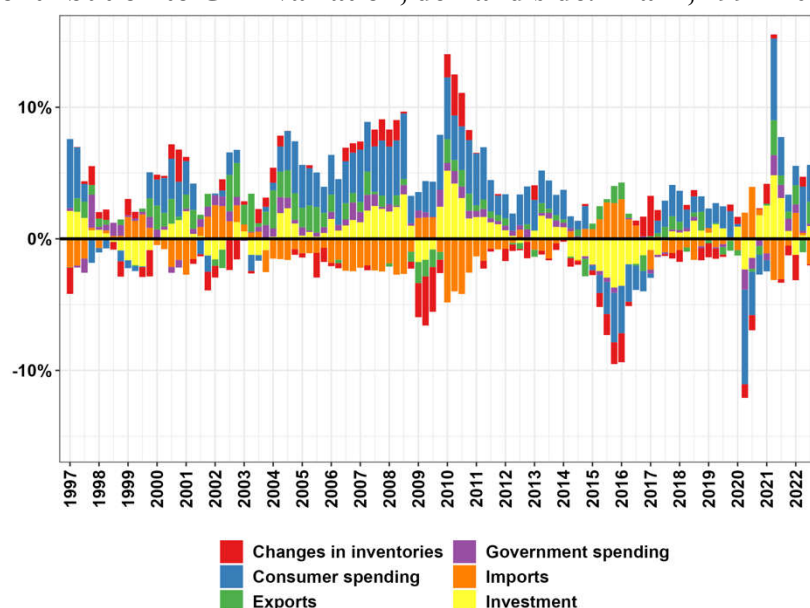
poverty and starvation⁴⁴, and the minimum wage policy⁴⁵. In light of the terrible income distribution⁴⁶ which characterizes the country – what constitutes one of the most perverse legacies of the colonial period –, these modest policies were expansionary⁴⁷.

Figure 3. Basic interest rate (nominal). Brazil, 2003-2022 (% p.y.)



Source: Authors' elaboration based on data from Central Bank of Brazil.

Figure 4. Contribution to GDP variation, demand side. Brazil, 1997-2022 (%)



Source: Author's elaboration based on data from Trimestral Brazilian National Accounts. Decomposition methodology from Lara (2015).

⁴⁴ Before the pandemic, this program had around 44 million beneficiaries, costing annually around 0.5% of the Brazilian GDP.

⁴⁵ Lula's government's minimum wage policy defined that the nominal minimum wage would be corrected by the inflation rate of the previous year and the GDP growth of two years before. This led to 38% increase of the minimum wage, in real terms, during Lula's presidency (2003-10).

⁴⁶ The richest 5% of the population earn approximately the same income as the other 95% (Oxfam, 2017). The Gini Index in 2021 was 0.529, one of the highest in the world.

⁴⁷ As widely known, the low-income households have a propensity to consumption which is close to 1.0, meaning that these policies had very large multiplier effect (see for instance Sanches and Carvalho, 2022).

Yet, this dynamism also generated a relatively high growth of investments, which from 2006 to 2011 – with the sole exception of 2009, due to the outbreak of the global financial crisis – also gave an important contribution to economic growth. This virtuous combination between the different components of demand started eroding in 2013, with the reversion in the trend of commodity prices, the instabilities in the global financial markets, the beginning of a political crisis which would lead to the coup d'état (in 2016) – with very negative effects over investments – and, very importantly, with the implementation of a harsh austerity policy from 2015 onwards⁴⁸. Even if the government expenditures have never been the main driver of economic growth, they always had at least a small positive effect on growth. From 2014 onwards however this contribution became null or negative⁴⁹, and this scenario only changed with the pandemic (details on subsection 3.1.3). The apex of the effort to institutionalize the austerity policy – making it mandatory – came with the promulgation of a constitutional amendment, in December 2016 (right after the coup d'état of Dilma Rousseff), determining a ceiling for public expenditures. According to this “new fiscal regime”, the national government expenditures cannot increase (in real terms) for twenty years⁵⁰. Needless to say, in a country which lacks very basic public services and whose population is still increasing and aging, this law may be extremely damaging for the welfare of the society.

In summary, after two decades of very low GDP growth – averaging 1.6% per year in the 1980s and 2.6% in the 1990s –, Brazil entered a phase of a higher dynamism, but it was extremely short: from 2004 to 2011, the GDP growth average was 4.4%⁵¹. The virtuous circle which arose in this period was easily dismantled, showing the lack of resilience of the Brazilian economy and its continuous dependency on international conditions. Crucially, the domestic market, which is potentially very large, is very segmented, with a large share of the population still very vulnerable to the frequent oscillations of their unstable incomes⁵². Finally, these years of higher economic dynamism were not followed by substantive changes in the economic structure, maintaining the same (old) fragilities. Even worse, we may argue that some of the elements which were responsible for this short-term growth were harmful for the perspectives of long-term growth – let alone for the possibilities of structural changes conducive to economic development. Namely, this economic dynamism through the commodities boom reinforced the ongoing trend for a regression in the productive structure; while the appreciated currency, which was useful for the control of inflation and allowed a surge in household consumption, tended to be damaging to national industry.⁵³

As a result, from 2014 to 2016 the Brazilian GDP fell by 6.25%, a deeper crisis than the one provoked by the Crash of 1929 in Brazil. In 2019 the GDP was still 2.1%

⁴⁸ Obviously, there are many reasons for this deceleration (and later recession) of the Brazilian economy, such as a natural termination of a cycle related to durable goods, the exhaustion of the dynamism provoked by a credit surge, etc., but these deeper discussions are beyond the scope of this article. For details, see for instance De Conti et al. (2020).

⁴⁹ In addition to the direct effect of the decline in the public expenditures over the GDP growth, one has to consider the impact on expectations – and therefore on the private expenditures.

⁵⁰ According to this Constitutional Amendment n. 95 (EC95 in the acronym in Portuguese), the national government nominal expenditures can only increase according to the inflation rate, defining a flat expenditure in real terms.

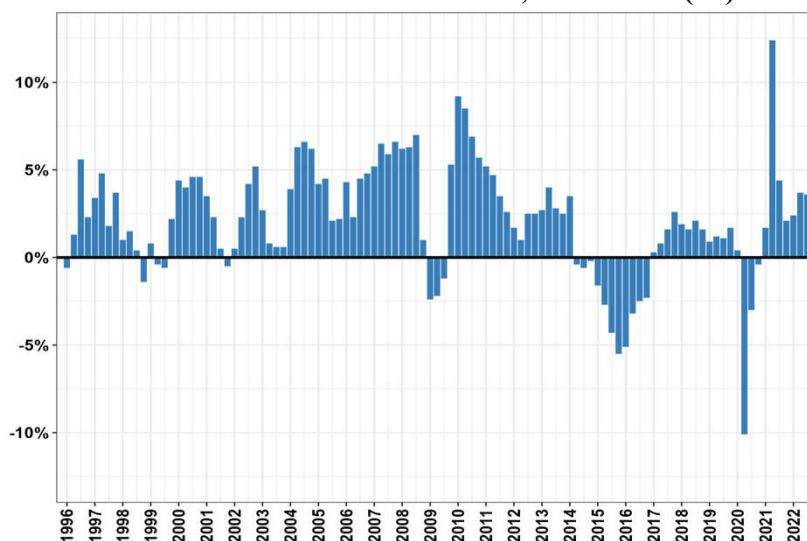
⁵¹ Authors' calculation based on data from IBGE.

⁵² Around 40% of the working population is in the informal market.

⁵³ The literature names it as “Dutch disease”. In the case of Brazil, it is slightly different, because the flow of international capital during the economic boom was not exclusively related to the commodity boom, but also – and very importantly – to the portfolio investments (as seen in subsection 2.1.2).

lower than in 2013 (Figure 5). Hence, when the pandemic came it was a hard blow to an economy which was already prostrate, as we are going to discuss in Section 3.

Figure 5. Gross Domestic Product Growth. Brazil, 1996-2022 (%)



Source: Authors' elaboration based on data from Trimestral Brazilian National Accounts.

2.2 Social System of Production

2.2.1 Social blocs

The abovementioned Real Plan in 1994 represented a watershed in class relations in Brazil. The financial fraction of big capital, namely the big private banks, has consolidated its position at the core of the ruling bloc, alongside agrobusiness and transnational industrial capital. At that point, the national industrial capital suffered a very strong blow, experiencing an important drop in its power, and the working class suffered a major shock from the neoliberal policies implemented in Brazil and the transformations of the international division of labor which were occurring in the 1990s.

The PT administrations represented a rebalancing of the class positions – although without fundamentally changing them – in a regime aimed at accommodating contradictory class interests, but still under the hegemony of big capital. Working class fractions have been incorporated within the power structure⁵⁴, and the cycle of economic growth between 2003 and 2011 made it possible to reconcile high profitability of capital with an increase in formal employment, an increase in the minimum wage, and a decrease in poverty (Pinto et al., 2019).

This class conciliation evolved by fostering contradictions. While the international economic cycle allowed for both growing profits and labor income, the stability of the PT governments persisted. With the fall in the profit rate of the main national companies from 2011 on (Marquetti et al., 2020) - caused by the reversal of the external scenario and by the increasing power of workers' pressure –, a dispute between

⁵⁴ For instance, the public servants of Banco do Brasil, Petrobras and Caixa Econômica Federal (a public bank which is responsible for the operationalization of most national social programs), through their pension funds (details in subsection 2.2.2); and some labor unions' leaders, which assumed positions in the national government.

capital and labor for the appropriation of surplus emerged once again⁵⁵ (Dweck & Teixeira, 2017). At that moment, it was no longer possible to preserve the former regime in which the government was sustained. Faced with the rise of mass mobilizations⁵⁶ and the inability of the government to control them, the dominant sectors have progressively joined forces to overthrow the Dilma Rousseff government, which, even with all the concessions in the field of economic policy (discussed in subsection 2.1.3), failed to recover its legitimacy. The big internal bourgeoisie and international capital started to demand an orthodox adjustment program, with the impeachment of Rousseff as part of the plan (Nunes, 2021; Pinto et al., 2019). With the support of the traditional right-wing parties, the mainstream media, the upper middle class, and with the decisive impulse of the “Lava Jato” (Car Wash) Operation⁵⁷ (Boito Jr., 2017b), the impeachment occurred without significant resistance from workers and low-income groups, which were also unhappy with the fall in their standard of living during Rousseff's government. The sectors taken into consideration here are the low wage-earning working class, the self-employed and the informal workers. The rising of their income during the first decade of PT governments allowed them to expand their consumption - especially of durable goods. High education access policies also contributed to raise their expectancy of social ascension. The increased aspirations of these sectors gradually clashed with the limited expansion and quality of public services, especially public transportation, health care, and primary education. Moreover, the recession which started in 2014 significantly reduced the standard of living of these sectors. These factors together contributed to the popular rejection of Dilma Rousseff's government (Braga, 2016).

This coup d'état against Dilma Rousseff led Brazil to another cycle of liberalization, including the reduction of public expenditures, but also labor and social security reforms, and the privatization of strategic public companies (Boito Jr., 2017a). Michel Temer took office after Rousseff was removed, approved the labor reform and the abovementioned ceiling law that froze public spending for 20 years. Subsequently, the impact of the “Lava Jato” Operation on the traditional parties and on the two other Branches of the Brazilian state – namely, the Executive and the Legislative⁵⁸, along with the persistence of the economic crisis – among other factors –, led to a generalized political instability, an expression of the crisis of hegemony of the ruling bloc built since 2003, which resulted in the election of Jair Bolsonaro – with the active participation of the Military Body and the Brazilian Judiciary Branche (Pinto et al., 2019).

In this context, the powerful economic sectors – finance, agrobusiness and industry – bet on Bolsonaro to conduct the new round of neoliberal economic reforms. The election of the former army captain has initiated a far-right government, at once protofascist and ultraliberal⁵⁹. Bolsonaro's government has implemented social security

⁵⁵ The year 2013 sets a record in the number of strikes across the country: 2,050 strikes, an increase of 134% over the previous year and a historical series record.

⁵⁶ The so-called “Journeys of June [2013]”, which preceded the realization of the Football Confederations Cup in Brazil.

⁵⁷ The “Lava Jato” operation was aimed at investigating corruption in the relation between big Brazilian companies – including the public company Petrobras – and politicians from various parties. The operation was stained by a clear political bias of the then judge Sergio Moro and many other members of the juridical body, which deliberately – and aprioristically – wanted to incriminate PT.

⁵⁸ The criminal prosecution of many politicians – including former president Lula – and managers of state-owned companies in the scope of “Lava Jato” Operation opened up the way for the emergence of an “anti-politics” sentiment in the country. Bolsonaro took advantage of that situation presenting himself as an outsider from that traditional politics which appeared to be immersed in corruption.

⁵⁹ According to Traverso (2017), one of the characteristics of what he names as the “new faces of fascism” is precisely the flexibility in terms of the economic agenda. As a congressman for twenty years, Bolsonaro

reform and introduced a series of deregulations, including the weakening of environmental and labor protection standards. As we will discuss in subsection 3.1.3, the independence of the Central Bank was approved, as well as regulatory frameworks that facilitate private management in areas such as natural gas and sanitation. The privatization of Eletrobras and the sale of several Petrobras assets completed a representative picture of the deepening of the neoliberal project⁶⁰. At the end therefore, there was a disorganization of the functioning of the State (Marquetti et al., 2023).

2.2.2 Corporate governance

As discussed above, from the 1930s onwards the industrialization process in Brazil was very much based on the creation of public companies in strategic sector, as well as a state-induced organization of big private groups for the exploration of certain industrial niches. Yet, with the government of Juscelino Kubitschek (1956-61) one crucial change was implemented, namely, the facilitation and attraction of foreign capital for some sectors. Kubitschek's motto was [developing] "fifty years in five", and FDI would be responsible for accelerating industrial development and – supposedly – bringing new technology to Brazil. A tripod was thence defined, with the national private capital producing mainly non-durable consumption goods, the public sector responsible for infrastructure and capital goods, and the private foreign capital for durable goods (Lessa, 1982).

The presence of multinationals in strategic sectors – which substantially increased over the next decades, as we will indicate below – deepens the problem named by Furtado (1964) as the externalization of decision centers. After all, the long-term plans of these multinationals are designed at the headquarters, without any concern for the local territory or society, and it is not easy for the Brazilian government to intervene in these arrangements coordinating the interests of this foreign capital with any kind of development plan.

After the external debt crisis (1980s) and the adherence to the Washington Consensus (early 1990s) however, many public companies were privatized (Carneiro, 2002). In parallel, with the simultaneous termination of the protectionist policies, many national companies went bankrupt or were bought by foreign capital. In the end, the current ownership situation is significantly different from that of the 20th century.

Regarding the privatization process, some of the iconic companies of the earlier phase of the industrialization process, mentioned above, were sold to private groups. This is the case of Vale do Rio Doce (one of the biggest mining companies in the world), Companhia Siderúrgica Nacional (steel) and Usiminas (steel). Along with that, the privatization of Embraer (aircrafts) is very symbolic, because it was an important case revealing the potential of the national industry to also enter high-tech sectors. For infrastructure, the tendency since the 1990s is also the concession of the service sector to the private initiative. For instance, the whole network of telecommunications, all relevant airports and an important share of the roads are currently operated by private concessionaries. When this process started, the government created several agencies to regulate the activities of the private sector in these strategic fields (e.g. National Agency for Water, National Agency for Electrical Energy, National Agency for Telecommunication). Yet, these agencies are limited in their actions and the services provided by these private companies often have low quality and/or high prices.

was not in favor of a neoliberal agenda. Nonetheless, in order to win the election, he invited as his main economic advisor a radical neoliberal, who later became his Ministry of Economy (Paulo Guedes).

⁶⁰ Details in subsection 2.2.2.

A peculiarity of this privatization process in Brazil arises from the importance of some pension funds. In fact, the three biggest pension funds in Brazil are those of Banco do Brasil (Previ), Petrobras (Petros) and Caixa Econômica Federal (Funcef). Since these funds are for employees of public companies, they suffer the influence of the national government in their decisions of portfolio allocation⁶¹, and in the 1990s they played an important role in the privatization process, through the purchase of shares in some companies (De Conti, 2016). Paradoxically therefore, the public companies were used to leverage private capital to the purchase of other public companies⁶². Over time, these big pension funds kept participating in these companies, interestingly providing the national government the possibility of some influence – via pension funds of public companies – in these privatized companies⁶³.

Regarding the production of consumer goods, the division established in the second half of the 20th century was somehow maintained, and the production of durable goods is typically made by foreign multinationals. On the other hand, the private national capital is concentrated in the production of non-durable goods, services related to the multinationals – such as financial or commercial representation (Diegues, 2023) –, and other services related to the industrial sector, such as civil construction. In addition, the national capital owes most of the agrobusiness companies, as well as enterprises providing low-tech and low-value added goods and services.

One very important exception concerns the banking system, where the market is concentrated in five big banks⁶⁴, but only one is a foreign institution (Santander). Among the other four big banks, two are owned – mostly – by Brazilian private capital (Itaú and Bradesco), and two are public institutions (Banco do Brasil and Caixa Econômica Federal). Having important public banks gives the national government a very important tool for the implementation of public policies – details below. Yet, Banco do Brasil was listed in the stock market, engendering some hinderances for practices which respond to the national government interests, but are not welcomed by shareholders.

Also very important, these huge private financial groups are increasingly entering other economic fields, through the purchase of shares in many diverse companies. This contributes to a change in the governance of these companies, tending to create the contradictions imposed by financialization in the management of many firms worldwide (Plihon, 2005)⁶⁵.

The big companies owned by national capital in Brazil are concentrated in only a few sectors. In the Forbes “The Global 2000” edition 2022⁶⁶, Brazil had 23 companies among the 2000 world’s biggest listed companies⁶⁷: eight of them are in the financial sector; four in the production of steel; three in the sector of oil, petrochemicals and fuel; two in the food industry; two in the generation and transmission of electricity; one in

⁶¹ Since the pension funds Boards and Directorates are partially composed by representatives appointed by these public companies, there is always the possibility of an articulation of their guiding actions with the priorities of the national government.

⁶² At the same time, the Brazilian Development Bank was providing subsidized loans for the private groups which were purchasing the public companies, which is another contradiction of this process.

⁶³ It is important to highlight however that only a few (very big) pension funds do relevant investments in companies. Most of them allocate their portfolio in public bonds, since the risks of these assets are very low and, in Brazil, their yields are quite high.

⁶⁴ In 2021, these five banks concentrated 77.4% of the total deposits and 81.4% of the total volume of credit (BCB, 2021).

⁶⁵ For instance, the search for short-term yields.

⁶⁶ <https://www.forbes.com/lists/global2000/?sh=522ec7cd5ac0> . Access on Feb. 3, 2023.

⁶⁷ The ranking is established in view of four metrics: sales, profits, assets and market value. For details, see <https://www.forbes.com/lists/global2000/?sh=55cf938f5ac0> . Access on Jan. 19, 2023.

mining; one in biomass energy; one in pulp and paper industry; and one in the sector of electrical motors and electronic parts.

Despite all changes in the ownership structure over the last decades, one characteristic continues: the existence of monopolies and oligopolies in many relevant sectors of the economy. Contrarily to the promises embedded in the agenda of privatization and liberalization, the reforms initiated in the 1990s did not result in the alleviation of the market concentration in many important sectors, with harmful consequences for the economy and the society (both in terms of prices and quality of goods and services).

Concerning corporate credit, the Brazilian banking system, although developed and mature, is not relevant for the provision of long-term resources. One of the main reasons is that the agents may obtain high yields in the short run and without risk of default by investing in public bonds, since the basic interest rates in Brazil are extremely elevated. Under these circumstances, the main sources of funding for investments in the country are the internal funds of the firms (retained profits) and credit provided by the Brazilian Development Bank (BNDES). For short-term credits – related to working capital –, it is mostly provided by banks or suppliers, but Rosa (2018) shows that even this domestic credit is correlated to the international liquidity cycles (discussed in subsection 2.1.2). In turn, the abovementioned public banks provide special credit for agriculture (mainly Banco do Brasil) and housing (mainly Caixa Econômica Federal), as well as adopting important anti-cyclical policies in the aftermath of the outbreak of the global financial crisis.

Last, but not least, it is important to highlight that some labor unions in Brazil play a significant role in the defense of the working class, but with very important differences in terms of sectors and regions. In some moments, they performed national struggles which were important: for instance, during the re-democratization process in the 1980s or in the rejection to the proposal of the American Free Trade Agreement (AFTA) in the turn of century. Nonetheless, when it comes to the struggles which are related to the specific needs of their social basis, most workers in Brazil have no strong representation or no representation at all. In fact, alongside the great division that comes with a high degree of informality in the labor market, the labor unions are very heterogeneous. According to the Brazilian Labor Law, there should be one and only one labor union for each sector (or occupation) and each region⁶⁸. This results in the existence of thousands labor unions, but the main problem is that it reduces the possibilities of unity between them – and therefore the collective power of the unions. Some sectors in some regions have well organized labor representation and can leverage this power in the wage bargaining process, but this is seldom the case. In addition, they usually have no role in management decisions of companies.

2.2.3 Labor market

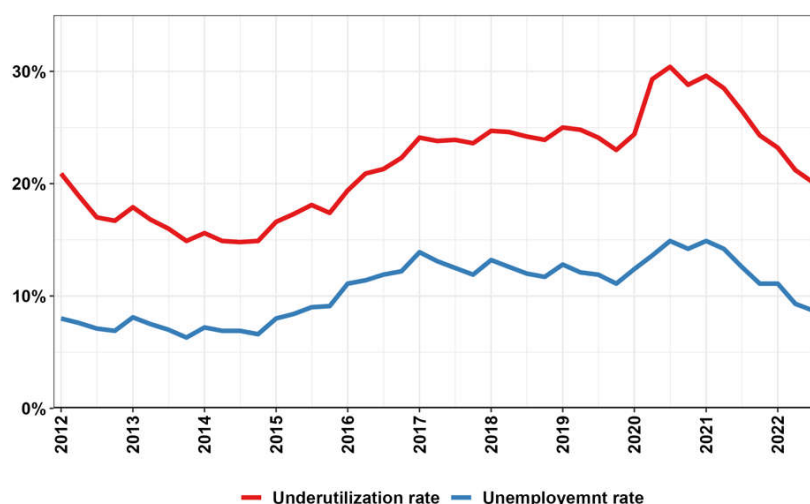
The Brazilian labor market experienced important transformations during the period immediately preceding the COVID-19 pandemic. Between 2003 and 2014, due to the developments discussed above, there was a decrease in unemployment, an increase in the average real wages and a decrease in informality (Filgueiras, 2019). However, the growth of employment in this period was mostly concentrated in jobs with salaries of up to two minimum wages, in a context of a decrease in the share of industry in GDP, and

⁶⁸ As a result, in many factories there are more than 10-20 unions, representing different groups of workers. It happens when a factory involves activities related to different sectors, each of them being related to a different union.

growth in agricultural, mineral production and low complexity services, which are sectors with lower propensity to increase productivity. Such structural elements made the positive results observed in the first decade of the 21st century very fragile (De Conti et al., 2020).

The recession that begun in 2014 largely reversed the wage gains and the increase in formal employment of the preceding period. In 2015, the year Rousseff's government started a fiscal adjustment. GDP, which was already stagnating, fell by 3.8%, followed by another 3.6% drop in 2016. Unemployment jumped from 6.6% in December 2014 to 9.1% in December 2015 (Figure 6). Deepening the ongoing crisis, the abovementioned ceiling law for the public expenditures (Constitutional Amendment 95, also named as EC 95/2016) had direct and indirect impacts on the conditions of the working class, as it limited the expansion of public services - especially health and education - and the investment potential of the State, which in Brazil tends to be an important driver of economic growth.

Figure 6. Unemployment rate and labor force underutilization rate. Brazil, 2012-2022 (%)



Source: Authors' elaboration based on data from PNADC – Brazilian Institute of Geography and Statistics (IBGE).

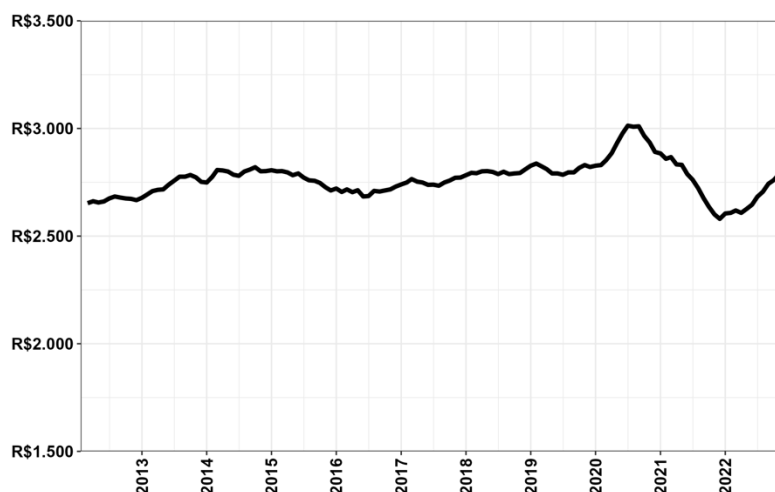
Note: The labor force underutilization rate is defined as the sum of the number of persons unemployed, underemployed and potential jobseekers, expressed as a percentage of the labor force

In addition to EC 95/2016, the government of Michel Temer, soon after the ousting of Dilma Rousseff, moved quickly to carry out a Labor Reform, which was approved in 2017. This reform, announced with the stated goal of increasing the number of jobs and the formalization of employment in Brazil, substantially altered the system of labor regulation and protection, with effects diametrically opposed to those declared. In general, the 2017 reform was based on a neoclassical ideological starting point, the idea that reducing labor costs would increase employment, but what has been proven is that it did not change the unemployment rate and, moreover, decreased the average wage and increased informality and job turnover (Filgueiras, 2019). The reform also weakened the unions' power to negotiate, since it opened the possibility of individual negotiation of labor contracts and restricted the funding structures of most unions by making the labor union contribution non-compulsory. It is important to point out that this substantial deterioration in working conditions occurred in one of the countries with the highest

concentration of income in the world, and that in the year the reform was approved, the unemployment rate was 12.7%.

The conjugation between economic crisis, technological transformations and labor and social security reforms has therefore resulted, even before the outbreak of the pandemic, in a process of structural deterioration of the labor market, evidenced by the increase of informality and self-employment, the decrease of the average income (Figure 7) and the increase of job rotation, ultimately reflected in the increase of absolute poverty and in the worsening of income inequality (Pochmann, 2021).

Figure 7. Habitual labor income, in real terms – Brazil, 2012 – 2022 (2022 R\$)



Source: Authors' elaboration based on data from PNADC – Brazilian Institute of Geography and Statistics (IBGE).

2.3 Key State Policies

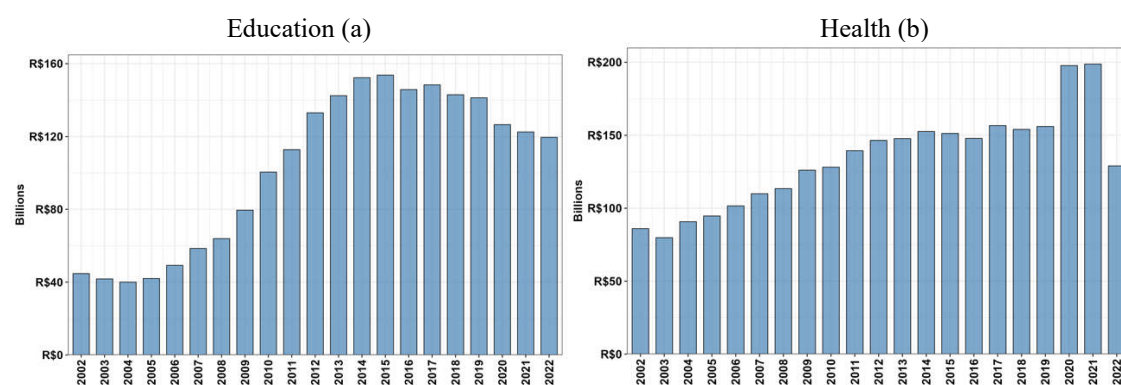
2.3.1 Welfare State

The recession beginning in 2015 reverted a cycle of limited social inclusion initiated in the first decade of the 2000s and that could only very broadly be defined as a Welfare State. However, during the PT governments, there have been important policies such as the increase of the minimum wage, increase in the number of young people with access to higher education, expansion of public health coverage, policies for women, black and indigenous people, a sharp reduction in hunger⁶⁹, among others. Combining a favorable external scenario and stimulus to the domestic market, the country's economic growth until 2013 occurred with an increase in formal employment, benefiting especially the low-income sectors, whose incomes grew more than the national average (Biancarelli, 2014), slightly reducing the income inequality, although without changing its historically dramatic levels. In this period, however, wealth inequality continued to increase and Brazil remained – and remains – as one of the most unequal countries in the world (Chancel et al., 2022).

⁶⁹ In 2014, FAO recognized that Brazil had achieved the Millennium Development Goals target of halving the proportion of its people who suffer from hunger and the more stringent World Food Summit target of reducing by half the absolute number of hungry people (FAO, 2014).

The change in this process of social inclusion has occurred in a similar way to that of the labor market. The core of the austerity policies was the Constitutional Amendment EC 95/2016, previously discussed. From the point of view of fundamental rights, EC 95/2016 implied the unbinding of the minimum constitutional budget for health and education in the country (Rossi et al., 2019; Rossi and David, 2021), freezing or decreasing the resources assigned to these areas (Figure 8). From 2016 on, there were several cases of public universities without sufficient funds to maintain their facilities, hire new staff and fund research. In health, the chronic underfunding of the universal health system (*Sistema Único de Saúde* - SUS) was intensified (Mendes & Carnut, 2020). It must be emphasized that EC 95/2016 does not include in the spending limits the payments and amortizations of the Brazilian public debt, leading to the conclusion that such a measure has no relation to the fiscal responsibility so promoted by neoliberals, but rather with the dismantling of the Brazilian state and the preservation of the interests of big financial capital⁷⁰.

Figure 8. Central Government budget committed to Education (a) and Health (b). Brazil, 2002-2022 (2022 R\$ Billions)



Source: Authors' elaboration based on data from SIOP – Ministry of Planning, Budget and Management.
Note: Data for 2022 available until September.

Another important move in the context of eliminating fundamental rights was the Reform of the Pension System, approved in 2019, under Jair Bolsonaro's government. For decades, there had been pressure for a reform of the pension system, with the argument that the trajectory of pension spending was putting the public budget at risk, an argument that has proven incorrect (Fagnani, 2019; Gentil, 2019). The favorable environment in the Executive and Legislative branches for the approval of neoliberal policies made possible the approval of the Reform, which raised the retirement age, altered the method of calculating its value, and reduced continued benefits such as Bereavement benefit.⁷¹ The changes in the legislation have affected above all the poorest population in the country (Strickland, 2021).

In addition, the ultraliberal and conservative character of the Bolsonaro government has resulted in an offensive against cultural and environmental policies, and against the rights of women, blacks, and indigenous people. The ministries and secretaries

⁷⁰ After all, the dismantlement of the public services is a very effective way of fostering the marketization of these sectors (specially education and health).

⁷¹ In short, the fundamental changes of the Reform are: i) it increased the time of worker's contribution needed for a full wage retirement pension – 35 to 40 years for men; 32 to 35 years for women; ii) for women, the minimum retirement age increased from 58 to 62 years old; for men, the age remained the same, 65 years old; iii) the value of a pension, for a worker, decreased from 80% of the value of the highest wages to 60% of the average value of all wages; iv) the Bereavement support payment decreased from 100% to 50% of the worker's wage.

dealing with these issues have been abolished, their budgets extremely reduced and, as if this were not enough, the Bolsonaro government has nominated people openly opposed to the defense of the rights of these minorities to the administration of these issues.

2.3.2 Industrial policy

As discussed in subsection 2.1.1, the industrialization process in Brazil was benefited by the implementation of important import substitution policies, notably from the 1930s to the 1970s. From the 1980s onwards, the external debt crisis and the adhesion to the Washington Consensus resulted in the abandonment of the former policies related to the aim of promoting import substitution. As a consequence, the country experienced a regression in terms of economic complexity, with the relative growth of sectors producing commodities, a decrease in the share of manufacturing industry in GDP, and a reprimarization of the exports. The share of manufacturing industry in GDP, which was around 20% in the beginning of the 1980s, reached 11.3% in 2020⁷², evidencing a process of early deindustrialization. However, during the governments of the PT there were elements of industrial policy that, even if not constituting an organic project of productive and technological catching up, had an important impact in some sectors.

The three major industrial policy programs of the recent period, before the pandemic, were the Industrial, Technological and Foreign Trade Policy - PITCE (2003-2007), the Productive Development Plan (2008-2010), and the Greater Brazil Plan (2010-2014). In broad terms, these programs were quite comprehensive in their objectives, covering sectors where Brazil holds comparative advantages, such as the food industry, mining, oil and gas, and also giving attention to cutting edge sectors such as software, semiconductors, pharmaceuticals and renewable energy. At this moment, the role of BNDES stands out as a long-term investment funder for the sectors contemplated by industrial policies, especially those with the capacity to compete internationally, such as the oil and gas industry (Petrobras), the aeronautical industry (Embraer), the heavy construction industry and the food industry. The local content policy of Petrobras should also be highlighted, although political and economic factors have obstructed its effectiveness (Schutte, 2021).

Regarding the general results of industrial policies, however, there is a certain consensus that the maintenance of a macroeconomic policy unfriendly to productive investment – such as high interest rates and the currency appreciation, discussed in subsection 2.3.3 –, as well as the excessive focus on tax exemptions for economic sectors during the last years of the PT administration, ended up limiting the achievement of industrial policy goals and could not reverse the process of productive and technological regression that the country had experienced. (Cano & Silva, 2010).

With the coup d'état against Rousseff, industrial policy was quickly dismantled in the trail of the austerity policies and the explicit adherence to the comparative advantage theory as a guide to industrial and foreign trade policy. Michel Temer opened the oil and gas sector to international companies, decreased Petrobras' participation in the production chain, and sold off company assets. After 2018, Bolsonaro deepened the privatization of some company assets, selling BR Distribuidora⁷³, oil fields, terminals, gas pipelines, thermoelectric plants, wind power plants, and Petrobras' first refinery. The policies of both presidents were aimed at benefiting the company's shareholders and the

⁷² Authors' calculation based on data from IBGE.

⁷³ The biggest company in Brazil for the commercialization of fuel and lubricant.

private - and foreign - oil and gas sector, to the detriment of Petrobras' strategic role as a driver of development (Carneiro, 2019; Furno & Leite, 2022). The role of BNDES has also suffered a setback, ceasing to be an instrument of industrial policy. The brutal reduction in the supply of credit to the private sector by the bank is an expression of this process. The sharp cut in the budget for Science and Technology completes the picture of a devastated land.

In short, since 2015 the national government has taken an ultraliberal view on the economy and, consequently, on industrial policy, based on an opposition between the State and the market, with the protagonism of the latter. Thus, the country adopts a passive position within global production networks, contributing to the deepening of its economic dependence, debated in subsection 2.1.1. The inability of the productive structure to actively respond to moments of intense transformation of the world economy became evident during the pandemic of COVID-19, as we will discuss in the next section.

3 Capitalism in Brazil: Covid-19, crises and reactions to the crises

When the first cases of COVID-19 appeared in Brazil, the national government should have been planning the best policies to both curb the dissemination of the virus and deal with the imminent economic impacts of the pandemic. Instead, no national sanitary policy was adopted, and the Minister of Economy, Paulo Guedes, declared that the best way to deal with the pandemic would be “accelerating the [neoliberal] reforms”. This meant that unlike what was being done in the rest of the world and in spite of the recommendations of the multilateral institutions regarding the use of anti-cyclical policies (e.g. Unctad, 2020), Guedes’ plan was adopting a “hands-off” attitude in relation to the crisis, and using the pandemic to impose reforms without any dialogue with society. Finally, the reactions of the population and the National Congress forced the national government to implement some policies to deal with the crisis, but in a rather disorganized manner. In this section, we will analyze the impacts of the pandemic on the Brazilian economy and the responses from the national government, through the investigation of all dimensions considered in Section 2.

3.1 Economic System

3.1.1 Integration in Global Production

The pandemic made very explicit the strong degree of integration of global production, since the interruption of the activities in some sectors in China, in early 2020, initiated a trigger effect that quickly hit world industry. After some months, other countries also had to temporarily discontinue their production engendering an unprecedented disruption in GVCs. In addition, some exogenous events related to the production of semiconductors – such as a fire in a plant in Japan⁷⁴ and the harsh winter in Texas (USA) – worsened the situation, creating an important lack of chips, which are currently a crucial component for many industrial subsectors⁷⁵.

In this context, the Brazilian economy was also hit by a lack of various imported and domestic inputs, both high-tech (such as the chips) or low-tech (such as rubber and cardboard). Some sectors also suffered from a twofold blow, given the decline in demand

⁷⁴ Renesas Electronics.

⁷⁵ The automotive sector for instance – one of the sectors analyzed in this research project –, is still dealing with the lack of this important input.

resulting from the economic crises and/or the social distancing policy, and the abovementioned problem with the supply of inputs.

Despite these problems, there are no clear signs of major changes in the integration of the Brazilian economy to global production. On the one hand, the lack of imported inputs and the currency depreciation could be an important stimulus for domestic production. Nevertheless, some of these scarce inputs are high-tech (e.g. the semiconductors, mentioned above), so it is very difficult – if not impossible – to quickly start domestic production. As for the currency, in some sectors it provoked an incentive for domestic production – notably in those in which there are not long-term contracts, giving flexibility for a rapid change in suppliers⁷⁶. Nonetheless, the huge volatility of the exchange rate in Brazil – details in subsection 3.1.3 – hinders any kind of long-term project aimed at implementing import substitution.

On the other hand, the pandemic served as a catalyst for the implementation of decisions previously taken by multinationals which contribute to the deindustrialization process in Brazil. In the automotive sector, for instance, during the pandemic Ford interrupted its activities in Brazil – moving them to Argentina –, Mercedes-Benz closed a plant and discontinued the production of cars in the country, and Renault closed the night shift in its plant in Curitiba⁷⁷. Unavoidably, it brings the perception that at least in some sectors the pandemic and the consequent crisis may have somehow accelerated the closure of industrial plants in Brazil.

It is also crucial to highlight that unlike many countries in the world in which the pandemic – along with geopolitical tensions – mobilized plans for a reshoring of some plants and/or the configuration of Regional Value Chains, the Bolsonaro government did not develop any kind of industrial policy or strategy to cope with the possibility of further disruptions in the GVCs – details in subsection 3.3.2. Given what has been argued so far, it is obvious that a policy of this magnitude was totally out of scope for that administration. After Lula took office as the new Brazilian president, in January 1st, 2023, some discussions related to a coordinated reindustrialization in Brazil are starting to happen, but the challenges are immense.

Corroborating the perception that there were no important changes in the Brazilian insertion at the global economy resulting from the pandemic, the country's trade account shows in the last three years a very clear trend of acceleration in the deficit of manufactured goods, and a considerable increase in the surplus of agricultural and mineral goods (Figure 1, above) – which is explained by the huge increase in commodity prices. Therefore, the pandemic has not provoked any important alteration in the Brazilian integration in the global economy, but seems rather to be deepening its position in the International Division of Labor, namely, as net exporter of agricultural and mineral commodities and a net importer of industrial goods⁷⁸.

3.1.2 Integration in Global Finance

Regardless of their origin, in the current phase of capitalism all global crises have important impacts on global finance. After all, financial flows and prices tend to be immediately impacted by any turmoil. The value of financial wealth – which reached extremely high levels in the context of financialization – also suffers sudden changes.

⁷⁶ For instance, in the garment sector the big magazines substituted the import of some clothes for the purchase of domestically produced ones (information obtained in our interviews).

⁷⁷ Details will be provided in the sectorial paper.

⁷⁸ Although there are still no available data, the deficit in the manufacturing industry is expected to reach a historical record in 2022.

Reciprocally, this volatility in global financial markets have also immediate and disseminated consequences on the world economy, deepening the original crisis. With the pandemic, the script was no different, and the first concrete harms caused by the pandemic to the Brazilian economy were related to this volatility in the global financial markets. Right after the announcement of the new coronavirus in China, the exchange rate in Brazil started skyrocketing and when the first case of COVID-19 was detected in the country (Feb 26th, 2020), the currency had already depreciated by 10.3% in relation to the USD.

As discussed in subsection 2.1.2, the integration of the Brazilian economy to the global finance is very sensitive to the international liquidity cycle. Since a large part of foreign investments in Brazil have a speculative character, as soon as the global uncertainties increase, there is a flight for quality which results in the abandonment of the assets in the country. Indeed, from August 2019 to July 2020, portfolio investment outflows from Brazil reached nearly US\$ 48 billion. In October-November 2020, however, there was already a reversal in the international liquidity cycle, with foreign capital searching again for high yields in the peripheral countries, and the surpluses in the Brazilian financial account started increasing again. In the end therefore, Brazil's economy did not suffer from a lack of hard currency, as happened several times in the 20th century. At the end of 2022 Brazilian international reserves were approximately at the same level they were when the pandemic outbreak (around US\$ 360 billion). Also very important, the Brazilian external debt did not suffer a substantial increase⁷⁹; and the public bonds did not suffer any downgrade by the Credit Rating Agencies. It does not mean however that the Brazilian external vulnerability is abolished, but only that – as discussed in subsection 2.1.2 – it has new forms of manifestation which are characteristics of financial globalization⁸⁰.

If sensitivity to global cycles is an old trait which was maintained, there is one major change in the Brazilian economy's integration into global finance which is not directly related to the pandemic, but was implemented in this period. Amidst the chaos provoked by COVID-19 and without an effective dialogue with the civil society, a new law⁸¹ regarding the foreign exchange markets was approved in 2021 and entered into force in the last but one day of Bolsonaro's government. This very comprehensive law is aimed at liberalizing even further the operations with foreign exchange in Brazil, for instance through the authorization of companies and individuals to carry out some operations and make some payments directly in foreign currencies in the domestic market – without the intermediation of financial institutions; the elimination of the need for companies to make a registration at the Brazilian Central Bank (BCB) when remitting money abroad for the payment of profits, interest rates, royalties and dividends; the elimination of some taxes related to economic transactions developed by non-residents in Brazil, etc. Yet, the most decisive modification in the degree of integration of the Brazilian economy with global finance was still not implemented, but may now be executed autonomously by the BCB: the authorization for individuals to hold banking

⁷⁹ From March 2020 to February 2021 – when it reached its peak – the public sector external debt increased by only 1.4% of the GDP, and this relative increase was mostly due to the currency depreciation and the fall in the GDP.

⁸⁰ For instance, through constraints on the economic policy and on credit availability (details in the next subsection). For a discussion on the new forms of vulnerability in the so-called “emerging economies”, see Akyüz (2017).

⁸¹ Law 14286/2021.

accounts in Brazil in US dollars⁸². If it happens, it will ratify the move of Brazil to the last type of financial integration as proposed by Akyüz (1993), which is defined by the allowance of domestic transactions in foreign currency. In our opinion, this reform and – especially – the possibility of holding banking deposits and providing loans in foreign currency domestically will tremendously magnify the risk of speculative attacks against the national currency. The experience of Argentina clearly shows the risks related to the authorization of banking accounts in central currencies in countries where the national currency is a peripheral one⁸³. Once a dollarization process starts in a peripheral country, it is very difficult to revert.

In sum, during the pandemic – but not because of the pandemic – the Brazilian economy increased the potential vulnerability arising from its insertion in global finance.

3.1.3 Macroeconomic Regime

The Brazilian macroeconomic regime revealed some of its inconsistencies during the pandemic, but was maintained in its general traits – in spite of a temporary tolerance in regard to a flexibilization of its precepts.

Starting with the exchange rate, the context of uncertainties combined with declarations by Minister Guedes that the government would not intervene in its trajectory – and the resulting speculative movements – caused an extremely large depreciation of the Brazilian currency in 2020: 22.6% in relation to the USD⁸⁴ (Figure 9). In 2021, the exchange rate was very volatile, and at the end of the year the BRL had depreciated by an additional 7.4% (De Conti, 2022). Despite the formal declaration that it is a floating exchange rate regime, and of the abovementioned declarations by Guedes, the BCB has intervened several times on the exchange rate market during these years, in a total amount which reached US\$ 65 billion across 2020-21 (IMF, 2021). In 2022, the exchange rate was again extremely volatile, varying from a minimum level of R\$ 4.6/US\$ to a maximum level of R\$ 5.5/US\$ over the year (a range of almost 20%). As stated in subsection 2.1.3, the crucial problem related to this volatility is that the potential gains of the depreciation – i.e. the stimulus to local production – are hindered by the uncertainties regarding the movement of the exchange rate in the near future.

This currency depreciation, along with the lack of inputs caused by the disruption of some GVCs and the hike in the price of energy caused a substantial increase in the inflation level in Brazil. Year-over-year inflation stood around 4% at the beginning of 2020, but from May onwards it started accelerating, reaching a peak of 10.7% in November 2021, when it started declining. In this context, monetary policy, which in the case of Brazil is totally devoted to pursuing the inflation target, was not as expansionary as it was in the rest of the world. In fact, with the outbreak of the pandemic – and in the context of low interest rates all over the globe –, the basic interest rate in Brazil decreased to 2% per year, a historical low level. Yet, in light of the inflation pressures – and in order to curb the currency depreciation –, the BCB in April 2021 started a rapid process of rise in the interest rates, and in August 2022 it had already reached 13.75% per year (Figure

⁸² The allegation is that a complete integration to the global financial markets will reduce the institutional uncertainties related to the Brazilian financial market, making it more attractive for foreign investments. For critics on this assumption, see Carneiro and De Conti (2022).

⁸³ For an analysis of the Argentinian case, see Laplane (2020).

⁸⁴ The sixth highest depreciation in the world in 2020 (just behind the currencies of Venezuela, Seychelles, Zambia, Argentina and Angola). In its highest point (mid-2020), the exchange rate reached almost R\$6/US\$, meaning approximately 50% devaluation in regard to the beginning of the year. Yet, the reversal in the international liquidity cycle, mentioned above, resulted in a declining rate in the last months of 2020 which partially reverted the overshooting.

3, above). That is, even in a context of recession, the inflation targeting regime determined a very contractionist monetary policy – even if the high inflation rate was clearly not determined by an excessive aggregate demand.

Figure 9. Nominal Exchange Rate. Brazil, 2000-2022 (R\$/US\$)

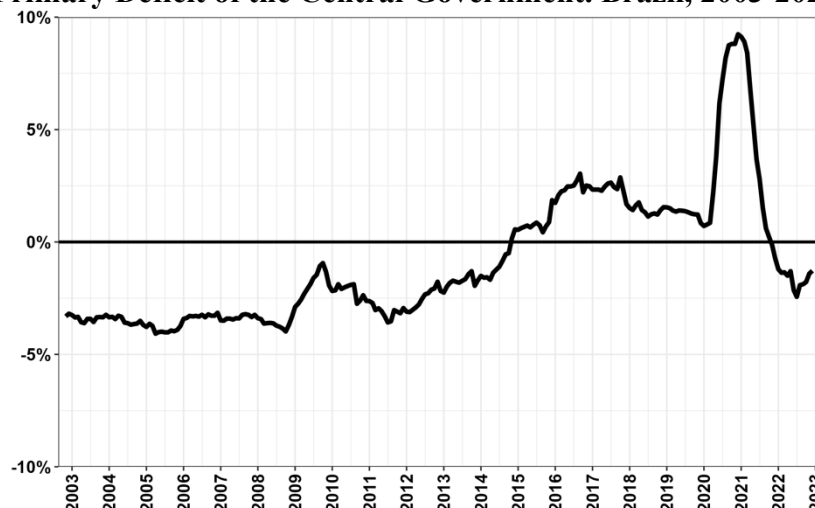


Source: Authors' elaboration based on data from Central Bank of Brazil.

As for fiscal policy, the main trait was the permanent improvisation, in light of the pressures emanating from the population and the struggles within the national government. As stated above, the first declarations of the then Minister of Economy indicated that no specific policy would be designed to deal with the crisis. In a certain moment however, the situation became unbearable and the national government, pushed by the National Congress, implemented some emergency policies. An important point is that in light of the very strict fiscal rules discussed in subsection 2.1.3, these policies required the formal recognition of a situation of “public calamity” and the approval, by the National Congress, of a decree creating a “War Budget”. Through this decree, the “ceiling” for public expenditures was temporarily waived, and the public sector was allowed to operate a “parallel budget” which was very flexible in terms of bureaucracies and financial constraints. These emergency policies – which will be discussed in subsection 3.2.3 – costed around 7.5% of the GDP, and the primary deficit of the central government⁸⁵ accumulated in 12 months, which was 1.1% of GDP in March 2020, skyrocketed and reached 9.8% of GDP at the end of the year (Figure 10).

⁸⁵ In 2020, the total deficit of the public sector – which also includes the payment of interest rates related to the public debt – was 13.7% of the GDP.

Figure 10. Primary Deficit of the Central Government. Brazil, 2003-2022 (% GDP)



Source: Authors' elaboration based on data from Central Bank of Brazil.

Nonetheless, even if in 2021 the pandemic (and its sanitary, economic and social consequences) was still far from finished, the Brazilian government rushed to revert the fiscal policy and astonishingly implemented a strong austerity policy which resulted in a primary deficit of only 0.4% of GDP at the end of 2021 and a primary surplus (accumulated in 12 months) of 1.2% of GDP in July 2022⁸⁶. The next year, the imminence of the national elections, which would occur in October 2022, brought a new reversal in fiscal policy. After tense internal disputes between the Minister of Economy and Bolsonaro, the then president pushed for the implementation of a whole set of social policies⁸⁷ deliberately aimed at increasing his popularity and enabling him to be reelected⁸⁸. As a result, the primary result of the public sector, which had reached in July 2022 the level of +2.4% of the GDP diminished to +0.7% of the GDP at the end of the year.

In sum, the institutionality of the “macroeconomic tripod” was kept during the pandemic, despite some flexibility in regard to fiscal policy in 2020. Yet, it is imperative to highlight that even in this very catastrophic situation provoked by the pandemic, there was a permanent (and very strong) pressure for a quick return to an austerity policy. This clearly shows how limiting the current macroeconomic regime is, as it creates a bias for contractionist policies even amidst a severe crisis.

Yet, there are two very critical changes in the Brazilian macroeconomic regime that should be highlighted, one which is already implemented, and another one which is about to happen. Concerning the first one, the Bolsonaro government decreed the formal independence of the Central Bank. Even if *de facto* the BCB has already had a high autonomy in its operations over the last decades, it was still formally subordinated to the

⁸⁶ In addition to the pressures from the Market for this quick return to an austerity policy (very clearly vocalized by the Credit Rating Agencies – for details, see De Conti, Borsari and Martínez, 2022), Mr. Guedes is prisoner of a radical neoliberalism. At the end therefore, the annual primary result of the Central Government was -1.2% of the GDP in 2019, -9.8% in 2020 and -0.4% in 2021. For the public sector as a whole, the figures are -0.8% of the GDP in 2019, -9.2% in 2020 and +0.7% in 2021.

⁸⁷ Which included the maintenance of the “Emergency income” policy, which will be discussed below, but also the creation of cash transfer programs for truck and taxi drivers, for instance.

⁸⁸ At the end, Bolsonaro was defeated in the elections by Lula, by a very small margin (49.1% vs 50.9% of the valid votes).

Ministry of Economy. In February 2021, it became independent *de jure*⁸⁹, meaning, among other things, that the BCB President and Directors have four years mandates which are not coincident with the Brazilian President's mandate⁹⁰. It will obviously reinforce the tendency of the BCB to adopt a conservative monetary policy, even in the situations when it contradicts the guidelines of the national government.

The second fundamental change in the macroeconomic regime is about to happen and is a reversal of the “new fiscal regime” implemented right after the coup d'état, in 2016. The abovementioned “ceiling” for public expenditures, which at the end was disrespected several times during the last years, is expected to be abolished. It comes as an outcome, on the one hand, of the perception by a part of the society that such ceiling is not functional anymore, and, on the other hand, as a consequence of the reversal in the ideological orientation of the national government, with the election of Lula. The current Minister of Finance⁹¹, Fernando Haddad, is promising that a “new fiscal anchor” will be announced in April 2023, which will mean an important change in the current macroeconomic regime⁹². Yet, the macroeconomic tripod – flexible exchange rate regime, inflation targeting and search for primary surpluses – will be kept⁹³.

Last, but not least, it is important to highlight that the policy responses to the pandemic resulted in disastrous social consequences for the population. In addition to more than 697 thousand registered deaths of Covid-19 in Brazil, there was an important deterioration in the income distribution, along with a substantial increase in poverty and food insecurity. According to Made-USP, the poor population increased from 51.9 to 61.1 million people from 2019 to 2021⁹⁴; and the extremely poor population from 13.9 to 19.3 million in the same period⁹⁵. Relatedly, in 2022 more than half of the Brazilian population (58.7%) is estimated to live with food insecurity, including 15.5% in a situation of hunger (33.1 million people)⁹⁶. It means that from mid-2020 to mid-2022, 14 million additional people were included in this group suffering from a high-level of food insecurity – a clear impact of the pandemic and the mismanagements of the national government in a peripheral country with high social vulnerabilities.

⁸⁹ The law established an “absence of attachment [of the BCB] to a ministry, guardianship or hierarchical subordination”.

⁹⁰ For the first two years of Lula's government, the BCB President will be still the one nominated by Bolsonaro.

⁹¹ The former Ministry of Economy was split into four Ministries, as it was the case before Bolsonaro's government. They are: Ministry of Finance; Planning and Budget; Gestion and Innovation; and Development, Industry, Trade and Services.

⁹² Haddad is constantly saying that “fiscal responsibility” regarding the public budget should be combined with “social responsibility”.

⁹³ This tripod is taken by the markets as a Holy Grail and even light discussions about possible changes provoke very strong reactions.

⁹⁴ These figures correspond to 24.5% of the Brazilian population in 2019 and 28.5% in 2021. In 2020 due to the Emergency Assistance Program the poverty was temporarily reduced (see section 3.2.3 below), but the changes in this policy in 2021 led again to increasing poverty.

⁹⁵ World Bank's poverty line (daily income below US\$ 5.50) and extreme poverty line (daily income below US\$ 1.90).

⁹⁶ Estimations by PENSSAN (2022) based on a national survey. It is also worth mentioning that the situation of food insecurity is worse for afro-descendants, women, in the rural areas and in the Norther and Northeastern regions of the country.

3.2 Social System of Production

3.2.1 *Social blocs*

As discussed above, the COVID-19 pandemic reached Brazil in a context of a low economic dynamism due, among other reasons, to the economic policy of Bolsonaro's government, which at that time was starting his second year in office. Elected with great support from the financial, industrial and agrobusiness sector, and counting on expressive support from parcels of the middle and the working class, Bolsonaro's government initially adhered to the thesis of “herd immunity”, refusing to act to reduce the spread of the coronavirus. Several Ministers of Health were appointed without a clear strategy to confront the pandemic⁹⁷.

Facing a deepening crisis, the main economic sectors – the same that helped Bolsonaro to get elected – pushed the government for fiscal stimulus and bailouts (Guimarães, 2020). At the same time, labor unions and the population demanded the creation of policies to protect jobs, income, and the livelihood of the population. Against his political agenda, Bolsonaro was therefore forced to implement emergency policies (details below), though not overturning the structural policies of the previous years. Elected with an anti-systemic - against the so-called traditional politics - and ultraliberal discourse, Bolsonaro was faced with a difficult problem to address: he was obliged, first, to maintain the support of his radicalized social base, to whom it was necessary to send a message of questioning the pandemic and lockdown policies; second, he was under pressure from business sectors to maintain liberal economic policies, whose centerpiece was restrictive fiscal policy, but also included the privatization of public companies; and, finally, he found himself pressed to resolve a major economic and social crisis that threatened to undermine his popularity.

The national Government has carried out policies to combat the pandemic but has done so in a precarious and erratic way, compromising its effectiveness. During the pandemic, President Bolsonaro explicitly acted against social distancing policies, which had to be implemented by state governors and mayors. The management of the pandemic, performed in this way, ranked the country in second place in the absolute number of registered deaths from COVID-19 worldwide, and in nineteenth place in deaths per population.

This juncture has led to an increasing role of the state in social policies for a short period, mitigating the social crisis of the pandemic. At the same time, the weakening of the composition of forces that supported Bolsonaro, due to the disaster in the management of the pandemic, led to a change in the position of some sectors of the ruling class, especially big finance, the industrial and commercial sector, and the big media, which began to question the advantages of defending an internationally isolated and internally unstable government, which had no clear direction for economic policy. This change, however, reflects much more the concern with the recovery of the country's profitability and investment opportunities than an ethical/moral rejection of the policies of the Bolsonaro government. In the same way, the above-mentioned increase in poverty and precarious occupations, and the decrease in the average household incomes have gradually undermined the legitimacy of the president in the middle- and low-income groups, contributing to Bolsonaro's defeat in the 2022 elections.

⁹⁷ For details, see De Conti (2022).

It is too early to see how the new ruling bloc will crystallize after Lula's election. First, because the forces that elected him are very heterogeneous⁹⁸ and will certainly fight over fundamental aspects of the national government's policy. For the moment, a certain consensus can be noted on issues related to the fight against hunger, the protection of indigenous people and the Amazon Forest, but it is also possible to see divergences, particularly concerning economic policy. Secondly, the narrow margin of victory for Lula and the animosity of the Military Body towards the new administration show that opposition to the government will be tenacious and could undermine some initiatives proposed by the new administration.

3.2.2 Corporate Governance

The pandemic exposed in a very crystal manner the hierarchies within GVCs. After all, in the sectors which were more affected by the need to temporarily interrupt their activities, the producers of the final goods tended to cancel (or postpone) an important part of their purchase of inputs. Among the input suppliers, the multinational companies (along with national big companies) had evidently more resilience, due to their financial strength, but also to an easier access to the policies implemented by the government⁹⁹. For the small suppliers however, despite the absence of data – given the bureaucracies and the delay involved in the conclusion of a bankruptcy proceeding – it is noticeable that there was a significant wave of bankruptcies. In the end therefore – and alike what typically happens in economic crisis –, there is an unavoidable tendency for market and ownership concentration. In line with this tendency, the number of mergers and acquisitions, which was stable in 2020, exploded in Brazil in 2021, when the economy started recovering¹⁰⁰. In addition, the combination of economic crisis and currency depreciation resulted in a significant decrease in the prices of Brazilian assets in the eyes of international investors. and there is a risk of further denationalization of Brazilian companies.

Another big change related to ownership which occurred in the last few years in Brazil, but with no direct relation with the pandemic, concerns the emergence of a new wave of privatizations, discussed above. One of the important pillars of Bolsonaro's economic proposals when he ran for the 2018 elections was precisely the defense of a wide program of privatizations¹⁰¹. He was not able to carry out the whole program he had in mind, but various public companies were sold to the private sector. Chiefly, some big companies such as Petrobras (oil) and Eletrobras (electricity) were not completely privatized, but several of their important assets were sold and, in the case of Eletrobras, a huge capitalization was made at the São Paulo stock market (B3) to eliminate the status of the national government as controlling shareholder. This agenda of privatizations is now suspended by the Lula's government, but it is not viable to revert what has been done in the last four years, so the new reality of the ownership structure in Brazil is characterized by a lower participation of the state.

⁹⁸ A so called "wide front" was erected to support Lula's candidature. Yet, this front is extremely heterogeneous, since an important part of this bloc adhered rather with the aim of avoiding a second term of Bolsonaro than because of a strong support to Lula and his projects.

⁹⁹ Small companies had more problems in fulfilling all bureaucratic requisites for the adhesion to the emergency programs implemented by the national government.

¹⁰⁰ 1660 operations in 2019, 1691 in 2020 and 2560 in 2021 (data from IBM, provided by Nascimento, 2022).

¹⁰¹ The allegation was that the private initiative is more efficient, that competition brings the prices down, and that the money raised by the privatizations could be used to pay for a part of the public debt.

The capitalization of Eletrobras was one of the 17 follow-ons (issuances of new shares by companies which are already listed) in 2022. Yet, very atypically, there was no initial public offerings (IPO) in the whole year, a clear sign of the uncertainties related to the global and the national economy. The year before however, the number of IPOs was a historical record (46), making evident the oscillations in the stance of companies and investors in regard to the Brazilian stock market (and the Brazilian economic situation as whole)¹⁰².

Given the pro-cyclicality of private credit – discussed in subsection 2.2.2 –, the Brazilian Development Bank was again very important to provide resources for the companies in need. Normally devoted to the provision of credit for investments, during the pandemic the BNDES created a special line¹⁰³ for the provision of resources for cash flow to small and medium enterprises, aimed at the maintenance of employment and income. Designed to be operative until the end of 2023, this program disbursed around US\$ 20 billion so far¹⁰⁴, through more than 150 thousand operations, and was very important in allowing these companies to overcome the crisis. In addition, the national government determined a temporary waive on the payment of a list of pre-contracted debts with the BNDES.

As for the external debt, there was no substantial increase during the pandemic. Interestingly, the stock of intercompany loans, which was persistently increasing since 2015, became stable when the pandemic started. It indicates therefore that in general the multinationals did not get substantial loans from the headquarters during this period.

Finally, it is important to highlight that during the pandemic, the labor unions had an important role in many companies and sectors in the struggles to reduce the impact of the crisis on the workers. In fact, unions were already weakened by the alterations in the labor market and by the 2017 labor reform – discussed in subsection 2.2.3 –, which abolished the mechanism of mandatory contributions from the workers to the unions, and – expectedly – were never invited by Bolsonaro's government for discussions regarding the actions to deal with the crisis. Nonetheless, in some companies and sectors where unions are still well organized – e.g. the automotive sector –, they played an important role in the dialogues with the companies for the determination of temporary interruptions in the production in the first phase of the pandemic – when the government spheres were still inactive¹⁰⁵ – and for the negotiation of collective agreements to avoid dismissals (e.g. at Volkswagen). Unfortunately, however, these struggles were rather defensive – that is, aimed at coping with the urgencies of the pandemic and reducing the damages, with no room for strategic (or long-term) struggles –, and limited to these sectors/companies where the workers are better organized.

3.2.3 Labor market

The crisis provoked by the pandemic hit an extremely unstructured and weakened labor market, as we saw in subsection 2.2.3. The supply shock resulting from the slowdown or stoppage of production in various stages of GVCs and domestic activities – discussed in subsection 3.1.1 – further exacerbated this situation (Marques & Depieri, 2020). Between March and June 2020, about 10 million jobs were cut and the

¹⁰² Data provided by B3 stock Market.

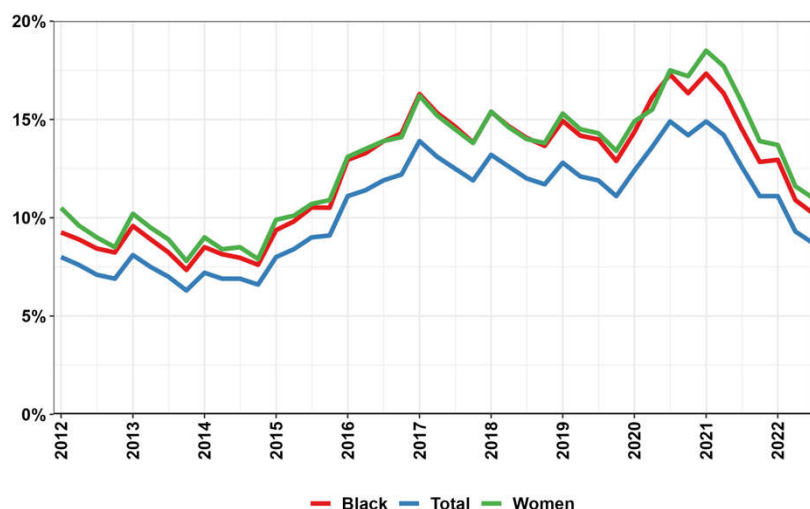
¹⁰³ Programa Emergencial de Acesso a Crédito - FGI PEAC.

¹⁰⁴ January 24th, 2023.

¹⁰⁵ Bolsonaro's government in no moment declared any measure to allow social distancing in a national scale. Eventually however, the subnational governments (states municipalities) started determining the temporary interruption of activities in non-essential sectors.

unemployment rate jumped from 11.8% to 14.9% – and the situation was even worse for black people and women (Figure 11).

Figure 11. Unemployment rate: total, women and black people. Brazil, 2012-2022 (%)



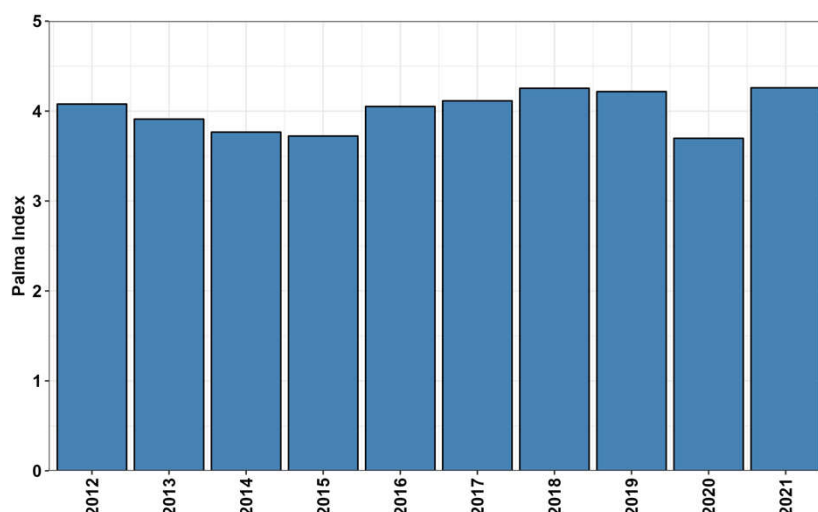
Source: Author's elaboration based on data from PNADC – Brazilian Institute of Geography and Statistics (IBGE).

Faced with the spread of the coronavirus, the prospects of collapse of the health system - which, in fact, occurred in many states of the federation -, and a social crisis of catastrophic proportions, the national government was forced – by pressure, including from entities representing big capital, such as the Federation of Industries of the State of São Paulo/FIESP (Guimarães, 2020) –, to implement emergency measures to maintain employment and income of the population. Among them, two should be highlighted: the *Auxílio Emergencial* (Emergency Assistance) (Law n. 13.982 of 2020) and the *Programa Emergencial de Manutenção do Emprego e da Renda* (Emergency Program of Employment and Income Maintenance) (Law n. 14.020 of 2020). The two laws are part of a larger set of initiatives to combat the pandemic that were enabled by the "War Budget", discussed in subsection 3.1.3.

The *Auxílio Emergencial* was the most important initiative to help the country's poorest working population. For the first phase of the program, from August to December 2020, about R\$ 300 billion (around US\$ 60 billion) were allocated for the payment to each beneficiary of five monthly parcels of R\$ 600 (around US\$ 120) (Brasil, 2021). The second stage of the program was more modest, distributing R\$ 250 (around US\$ 50) per household. The number of people benefited by this program in its first phase was about 68 million people – around one third of the Brazilian population –, which reveals not only the importance of the program, but also the drastic inequality of income and access to formal work that exists in Brazil, since the condition for accessing the benefit was not having a formal employment contract and a per capita monthly income of half a minimum wage (R\$ 522, about US\$ 100). The program was intermittently relaunched over 2021, but with progressively lower transfers and less beneficiaries. In October 2021 – the last phase of the program –, there were 22.6 million people (10.6% of the population) receiving US\$ 25 to US\$ 50. The high informality and precariousness of labor ties in Brazil forces us to consider the measure in question in a broader scope than simply a “welfare policy” but, rather, as an emergency income policy for the poorest working population whose remuneration has been affected in some way by the pandemic.

The effects of the government assistance were immediate. According to Fundação Getúlio Vargas (Neri, 2020), the program produced a temporary drop of 23.7% in Brazil's poverty rate (15 million Brazilians left the poverty line in the second half of 2020) (Nitahara, 2020). Nonetheless, with the end of the program this effect was reverted in 2021 – with an important increase in poverty, as discussed above –, and partially recovered with the new assistance program *Auxílio Brasil*, implemented by Bolsonaro in 2022 with clearly electoral objectives. Figure 12 shows the effects of the emergency assistance on income inequality in 2020, through the evolution of the Palma Index¹⁰⁶.

Figure 12. Palma ratio (40-10). Brazil, 2012-2021.



Source: Authors' elaboration based on data from PNADC – Brazilian Institute of Geography and Statistics (IBGE). Note: Palma Ratio is defined as the sum of all incomes of the 10% richest over the sum of all incomes of the 40% poorest.

In 2023, Lula relaunched the *Bolsa Família* Program, one of the main marks of his previous governments, also aimed at transferring cash to low-income household, but with some conditionalities in terms of vaccination and schooling attendance for the children. Under the Bolsonaro administration, the program had been reformed, which led to a reduction of the beneficiaries and a suspension of the readjustments in its value. It will therefore serve as an important apparatus of the Brazilian social protection system at least for the next four years – Lula's mandate –, but the maintenance of a cash transfer program (or a basic income program) over time is always uncertain, because it constitutes a government policy and not a perennial state policy.

The Emergency Program of Employment and Income Maintenance was the second most important program to combat the effects of the COVID-19 crisis. The program allowed employers (companies and individual employers) to temporarily reduce the work hours of their employees by 25%, 50% or 70%, with a proportional reduction in wages, and the possibility of suspending work contracts for up to 120 days, with an agreement through collective agreement or individual labor agreement (employer with employee). In return, the national government guaranteed the worker's partial income - with a maximum value equal to the unemployment insurance ceiling, which was R\$ 1,813 (US\$ 360) in 2020 - both in the case of reduced working hours and temporary suspension

¹⁰⁶ The Palma Index measures inequality by dividing the income share of the top 10% by the income share of the bottom 40%.

of the employment contract¹⁰⁷. During 2020-21, 2.1 million employers benefited from the program, temporarily suspending contracts or reducing the working hours of 12.4 million workers (35.3% of the total population with formal contracts in the private sector in the first quarter of 2020).

The critics to the program highlight that, by fixing the maximum compensation through unemployment insurance, there was a real decrease in the workers' wages, in general without equivalent counterparts by the employers (Welle *et al.*, 2020). Besides this, unions argued that, under the pretext of guaranteeing jobs in times of pandemic, the national government introduced a series of measures that increased turnover and overtime, decreased labor costs and undermined the bargaining power of workers, as long as allowed individual negotiation between workers and employers, overriding union mandate on that issues (DIEESE, 2021).

In structural aspects, the transformations of the Brazilian labor market during the pandemic followed a trajectory common to the rest of the world, but with particularities characteristic of a dependent and underdeveloped country. In regard to the expansion of remote work and platform work during the pandemic, both processes were already taking place in the wake of recent technological transformations but gained momentum during the pandemic. Different studies have shown a positive correlation between income and remote work. That is, in general, the better paid jobs tended to migrate to home office during the pandemic. Likewise, formal workers were the ones who most migrated to remote work. The high informality of the Brazilian labor market - 47% of the employed population in March 2022 (Pandolfi *et al.*, 2022) - and the high segmentation of income – 75% of workers earn up to US\$ 600 per month –, in practice made it impossible for a large part of the Brazilian population to stay at home, because they needed to keep working to ensure their livelihood. According to IBGE data, only 9% (7.3 million people) of the employed labor force in Brazil had remote activities in November 2020. These workers received 17.4% of the total wage sum, what indicates that their incomes were higher than the average. Out of these 7.3 million people, 85% were formal workers, 61% worked in the private sector, 57.8% were female, and 65.3% were white (Goes *et al.*, 2022).

The emergence of app-based jobs is also triggering intense debate (e.g. Antunes & Nogueira, 2020), and the increase in employment relationships under this modality certainly represents a process of precariousness of employment relationships. In Brazil, for example, the jobs of delivery and drivers were largely regulated by labor laws in the past. According to IBGE data, an increase in the number of delivery workers and a decrease in the number of drivers can be seen during the first year of the pandemic (Lapa, 2021). In November 2020, the number of deliverers by app in activity totaled 678.5 thousand workers, meaning a growth of 8.2% between May and November. Drivers were about 1.3 million, with a 6% drop over the same period. From the racial point of view, there is a prevalence of black people in this kind of work, about 60% (Lapa, 2021).

In sum, despite the abovementioned policies, which unquestionably curbed the potential damages of the crisis, the Brazilian labor market was severely hit by the pandemic. Yet, the pandemic did not bring completely new problems, but rather deepened some existing trends, in general conducive to a worsening of the precariousness of an important part of the Brazilian working class.

¹⁰⁷ The Federal Government was responsible for paying a share of the wage: between 25% and 70%, depending on the type of suspension or workday reduction agreed between workers and employees.

3.3 Key State Policies

3.3.1 *Welfare state*

As discussed in subsection 2.3.1, the pandemic hit Brazil during a reform agenda focused on austerity and the reduction of the role of the state. However, the severity of the health and social crisis mobilized the society in favor of emergency income and health policy measures. These measures, however, suffered all kinds of resistance from the national government, as we have already observed. We have also seen that, fighting against this resistance, the pressure from society resulted in important, albeit transitory, measures to preserve employment and income.

Something similar occurred with policies related to fundamental rights. The denial of the severity of the pandemic by the Bolsonaro government implied pressures to maintain the policy of fiscal austerity at a time when the whole world was expanding spending on health and Science and Technology. As a result of the pressures from the society, however, the National Congress led the approval of a series of measures that allowed the extraordinary expenditures related to the “War Budget”, discussed in subsection 3.1.3. Thus, the expenses executed from extraordinary credits totaled about R\$ 520 billion (US\$ 100 billion), or 7% of GDP in 2020 (Orair, 2022). Out of this total budget, however, about 40% are credits reallocated from other areas of the budget, including areas such as education (Rossi and David, 2021).

The national government delayed the release of the extraordinary budget for COVID-19 (Rossi and David, 2021), which led to a shortage or delay in the arrival of medical equipment and hospital vacancies during the most acute moments of the pandemic and a delay in the purchase and distribution of vaccines. As seen above, the result was the second highest absolute number of fatal victims and the 19th country in number of deaths per million inhabitants, according to official data.

According to Peres (2023), the pandemic represented a great loss of opportunity for strengthening the Brazilian Universal Health System (SUS). Along with a general recognition of the importance of this public system for the whole Brazilian population, the sanitary crisis induced a temporary increase in the resources destined to these services. Nonetheless, an analysis of the data carried out by this author shows very clearly that these resources were mostly used for subcontracting hospital beds at the private and philanthropic¹⁰⁸ health system. In fact, a law which was implemented in several states of the federation banned wage increases for public servants, and also the hiring of new servants until the end of 2021, and no exception was made to SUS. In sum, therefore, the largest shares of the extraordinary resources destined to SUS were addressed to the purchase of vaccines and the abovementioned contracts with private and philanthropic entities.

In ideological terms, the pandemic brought back the discussion about the role of the state in the economy, especially in funding key policies for health and scientific research. In some way and in a still very heterogeneous manner, the neoliberal consensus of austerity and minimal state lost strength in the years of the pandemic. However, this new ideological wave has not yet meant a reversal in the structuring public policies – not even in the health system, as discussed above. Strong expectations are attached to the Lula government, but as discussed above it is still not clear to what extent he will promote important transformations in the economic policies and/or in the welfare state in a context in which he has to deal with a very heterogeneous coalition which supported his election,

¹⁰⁸ Normally related to the Catholic Church.

an extremely radical opposition, and everlasting market pressures – e.g. from the Credit Rating Agencies – claiming for less public expenditures and less state participation.

3.3.2 Industrial policy

The pandemic has demanded the mobilization of human and economic resources in a short period of time. Nations that had capabilities developed in earlier phases - productive capacity, organized health systems, and even state coordination capacity - were able to respond more effectively to the challenges that emerged. Clearly, one of the critical capacities at that moment was the possession, within the country, of a sufficiently robust productive structure capable of addressing the needs of the population, in a context of high fragmentation of the productive stages on a global scale and the abovementioned disruption of the GVCs. The pandemic reopened the debate about national industrial policies, especially because questions such as the asymmetry of power, the capacity to appropriate surplus within GVCs, and even issues related to the national sovereignty became quite explicit.

Brazil, due to the recent trajectory of its industry and industrial policy – discussed in subsections 2.1.1 and 2.3.2 –, has proven vulnerable in this conjuncture. Perhaps the most important example is the Health Economic-Industrial Complex. Despite having a universal public health system, the country imports about 94% of all pharmaceuticals, as well as a large quantity of health equipment. Between 2003 and 2021, the health trade balance deficit increased from US\$ 5 billion to about US\$ 20 billion (Gadelha, 2022). Due to the enormous dependence in this field, and the policy of the Bolsonaro administration denying the seriousness of the pandemic, Brazil became dependent on the politics of other key countries to get mechanical respirators, personal protective equipment and vaccines to fight the pandemic (BBC, 2020; Corrêa Filho and Ribeiro, 2021).

In a national perspective, while several countries have undertaken efforts to develop vaccines and drugs against COVID-19, Brazil missed the opportunity to advance the Health Economic-Industrial Complex. Despite being a reference in health research, having its own research institutions for health research and public factories for vaccine production, the country did not develop its own vaccine, and even vaccine production in consortium with other countries only started to become a reality in February 2021 when Instituto BioManguinhos started producing the vaccine developed by the UK (Oxford/AstraZeneca). In the case of the partnership between Instituto Butantã (which belongs to the state of São Paulo) and the Chinese company Sinovac, the facilities for the manufacture of the vaccine in national territory are not yet finalized.

The short-term programs that the Bolsonaro government has undertaken to guarantee inputs for the fight against COVID-19 are far from what could be called an industrial policy. One of the elements that the 2008 global crisis has made clear, and that became more urgent with the pandemic, is the need to think of counter-cyclical policies as structural development policies, and not only as specific actions on macroeconomic variables. It is in this sense that industrial policy is once again finding some resonance in Brazil, although for the time being restricted to academic and progressive political circles.

4 Final remarks

Despite some relevant transformations occurring in Brazil throughout its history, it is crucial to perceive that it is still a peripheral economy. After all, the country has never succeeded in untangling itself from the very basic elements of the colonial condition (e.g.

external orientation, specialization in low-value added activities, economic vulnerability, huge social inequalities, racism), or breaking with the “colonial sense” (Prado, 1981) which marked the conformation of the Brazilian economy and society. In spite of the pertinence of splitting the investigation in the productive and financial dimensions, a national economy is integrated to the world economy in its entirety. According to Oliveira and De Conti (2022), these two dimensions are not only sides of a same coin, but they retro-feed each other, increasing the complexity and the problems of the peripheral condition.

Hence, when analyzing the main traits of capitalism in Brazil and the way these characteristics shape both the impacts of the pandemic and the reactions to the resulting crisis – the main objective of this article –, we have to take into consideration these historical features, along with the trends observed in the years preceding the outbreak of the pandemic and, obviously, the attributes of the government in office when it hit Brazil.

Carrying out this investigation, we reach some conclusions. First, it is important to highlight that in peripheral countries which are integrated to the global economy, the policies aimed at curbing the economic and social impacts of a crisis are normally hindered by strong pressures from the international markets – normally vocalized by the Credit Rating Agencies (CRAs). In the Brazilian case however, these permanent adversaries for the implementation of effective counter-cyclical policies were enormously increased by a complete mismanagement by the national government. The implemented policies, although important to curb what would have been an even worse disaster, fell far short of their possibilities because of their intermittency and short duration. Unlike other countries (e.g. Germany and the USA) therefore, no structural policies were designed or implemented during the pandemic, but the government was only dealing with the emergencies and trying to respond to the pressures from the diverse actors, notably in view of the presidential elections which were approaching.

Second, it is unquestionable that in the end the effects of the pandemic in Brazil were very harmful, prolonging and deepening an economic, social and political crisis which began in 2014. Yet, this “Corona-crisis” is not provoking any structural alternation in the way capitalism is structured in Brazil. Following the dimensions which were the focus of our investigations, we see that:

i) Concerning the Economic System, the integration of Brazil in the global production is not experiencing any important alteration, and the only structural move is a possible enhancement of the ongoing deindustrialization process. The integration of global finance maintains also its general traits – which determine a very high vulnerability to the international liquidity cycles –, but with one major change arising from the approval of a new law related to the foreign exchange market, and which may potentially lead the country to Akyüz (1992)’s last type of the financial integration – defined by the allowance of domestic transactions in foreign currency. Regarding the macroeconomic regime, the so-called tripod (ie, floating exchange rate, inflation targeting and quest for primary surpluses in the public budget) was maintained, but at least two important changes should be highlighted, namely, the approval of the formal independence of the Brazilian Central Bank, and the probable revocation of the law which established a ceiling for the public expenditures (along with the implementation of a new fiscal regime, still under discussions).

ii) In regard to the Social System of Production in Brazil, there were no structural changes in the social blocs, but the mismanagement of the crisis by Bolsonaro resulted in a reorganization of the political alliances and the victory of Lula in the presidential elections held in November 2022. With reference to the Corporate Governance, similarly to what happens in most crisis there was capital concentration and a higher risk of

Brazilian companies being sold to the foreign capital. As for the labor market, there was a clear intensification of the precariousness, heightening a trend that was already in process.

iii) Concerning the Key State Policies, the process of fragilization of the weak Brazilian Welfare State, which had already started in 2016 – after the coup d'état against Dilma Rousseff – was deepened; and nothing relevant was made in terms of industrial policy.

In a nutshell, the pandemic provoked no major changes, but rather accelerated ongoing movements and deepened some old traits of the Brazilian economy, especially its vulnerability, its structural heterogeneities, the precariousness of the labor market and the social inequalities.

Yet, there was one very important event which may be certainly considered as an indirect consequence of the pandemic – and the resulting socioeconomic crisis – which is the defeat of Bolsonaro in the presidential elections. Lula's third government has just started and, as discussed above, will deal with several obstacles, but the mere refusal of the Brazilian population of a second mandate for Bolsonaro as the president is a decisive event – even if it does not engender any immediate change in the main characteristics of capitalism in Brazil, which, for better or for worse, are well entrenched.

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