

# OLIGARCHICAL RESTORATION AND FULL NEOLIBERALISM RELOADED: AN ESSAY ON THE ROOTS OF THE TWIN CRISES AND THE 2016 COUP D'ETAT IN BRAZIL

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## Introduction

Brazil experienced a short period of moderate growth of commodity production, low unemployment rates, rising real wages, and better functional income distribution from 2004 to 2011, briefly interrupted only by the global capitalist crisis in 2008-2009 (Amann and Baer 2012, Hallak Neto and Saboia 2014). This performance drew international attention to the country, which appeared, along with China, India, and other rapid growing underdeveloped economies, poised to become an important economic powerhouse in the world capitalist economy. Starting in 2012, however, the Brazilian economy has resumed a long-run trend of economic stagnation started in the 1980s, with years of moderate growth rates interspersed with periods of low growth or stagnation and recessions. This led to the adoption of neoliberal economic measures, making the situation even worse (Serrano and Summa 2015).

Regarding the political arena, the country enjoyed a somewhat longer period (for Brazilian standards) of uneasy and relative political stability since the impeachment of president Fernando Collor de Mello in 1992 (De la Fontaine and Stehnen 2016). The 1988 Constitution seemed to be a political institution anchoring social interactions and allowing for some restricted democracy, at least electoral democracy, despite the interruption of Collor de Mello's mandate being based on political vendetta by other oligarchs like him

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rather than on authentic legal issues. Yet, after the presidential elections in 2014, a dispute that gave a fourth victory in a row to the alliance formed by a clientelistic center (in the sense of Graham 1997) and a social democratic left led by the workers' party, there has been a continuous and coordinated attempt to oust the legitimate elected president and to eliminate the workers' party altogether from the political system. These efforts, successful at his first objective, has been carried out by a coalition of conservative, religious fundamentalist, neoliberal, and neo-fascist forces (in the definition of Feldman 2008) in the parliament, but also in the judicial system, federal police, segments of middle class, and mainly in the major corporate media outlets, not to mention the usually suspect international vested interests<sup>2</sup>.

The convergence of such major economic and political movements, with economic instability feeding into the political system and vice-versa, formed a perfectly combined twin crises<sup>3</sup>. This has led to explosive economic and political turbulence, with a deep recession, higher unemployment and inflation rates, a division within the winning political coalition, and ultimately, as an oligarchical crowing achievement, a *coup d'Etat* and the adoption of a thundering neoliberal program. The *coup* is very close to accomplishing its purposes of attacking fundamental political rights and liberties, dismantling the state, canceling out the incipient welfare state and income redistribution measures, and assaulting on autonomous secular education, culture, science, and technology. In other words, the the *coup* has resulted in an oligarchical restoration and a full re-encounter with the failed neoliberalism of the 1990s and early 2000s that led, given its acknowledged failures (Ostry et al. 2016), to the very political victories of the center-left coalition in the first place, but now with more authoritarian and fundamentalist elements (both market and religious).

How could such dramatic reversals occur in just a couple of years? Does the fact that it happened similarly to a lightning striking out of a blue sky mean that it is only a cyclical phenomenon, with an economic recession opening room for opportunistic political behavior? Or it has the coup also structural features that were developing before the demise of the incipient and anomalous social democratic-clientelistic experiment? Summing up,

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2 Regarding the judicial system in Brazil, *The Economist* has dubbed it as weird (2015a), and also as Jurassic and dysfunctional (2004). *The New York Times* (2016) associated the graft-prone Brazilian congress with a circus. Greenwald et al. (2016) have termed the Brazilian media oligarchic and anti-democratic.

3 The use of the term 'twin crises' in this essay is different from its usage by Callinicos (2010), who addresses the financial crash of 2008 and the geopolitical problems associated with the defeat of the United States in the Russia-Georgia affair as the US economic and political crises.

what are the main determinants and developments that led to the Brazilian twin crises and the coup? This essay is an attempt to provide a preliminary answer and a critical interpretation of those changes, highlighting the likely structural and conjunctural causes behind them. The hypothesis entertained is that these rapid economic and political changes, confluent to a revolt of the elites, are better understood as part of a deeper, long-run tendency. The deep structural trend is about maintaining the wealth, income, and political power heavily concentrated in the hands of the domestic and oligarchical big bourgeoisie, sparsely shared with only its minor partners in the bureaucracy of the three branches of the state, without accepting any long-lasting democratic challenges to this concentration.

For instance, whereas the world economy has been moving along a pattern of increased income and wealth concentration and undermining democracy, typical of neoliberal capitalism, Brazil started following a different tread in the 2000s, with redistribution of income and inclusion of the poor's and workers' demands on the public budget by means of a restricted political representation. There is a hefty tension between capitalism and democracy in Brazil, just like in any other bourgeois society (Wagner 2011, Houle 2008)<sup>4</sup>. But Brazil experienced an anomaly regarding the ability of the latter to mildly tramp over the former. Hence, the historical tendency toward income and wealth concentration and plutocracy was briefly interrupted. This can be explained, among others, by a quarter century of relatively progressive and democratic political developments outside existing formal bourgeois institutions, when the better organization of the working and intellectually sophisticated middle classes managed to increasingly promote their interests within the capitalist state and take part in victorious political coalitions. That is, the capitalist trend of wealth and power concentration was only briefly reverted in Brazil in the beginning of the twenty-first century, and now, with the *coup d'Etat*, the long-run pattern is going to be resumed, with draconian reforms in the making to recoup the lost time (and income) and reposition the country along the global neoliberal zeitgeist of income concentration and plutonomy (Volscho 2015, Oxfam 2016, Foster and Holleman 2010).

Therefore, this trend is not something unique to Brazil and it could be considered an overstatement regarding the distinctiveness of the Brazilian

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4 Using a conventional, rational choice assumption, Houle (2008, 41) claims that "Inequality does, however, destabilize already established democracies. This is because in unequal democracies redistribution is more costly to the elites, who are therefore more likely to mount coups". Indeed, Houle! And since capitalism breeds inequality, it destabilizes and undermines democracies more often than thought by its lackeys. Witnesseth the Occupy Wall Street Movement in the US.

oligarchical bourgeoisie. That is, the adoption of full neoliberalism to retain economic privileges and the overthrow of an elected government to undermine democracy and monopolize political power is not necessarily singular. It is more like a persistent capitalist feature than a typical Brazilian one. What is specific about Brazil is that those forces could be neutralized by means of a brief socioeconomic and institutional arrangement that changed the distribution of riches and political power against all odds. Thus, since it failed to sustain the expected flows of riches and privileges for a longer political cycle, under institutions designed for maintaining these flows, the arrangement was doomed, and yet it lived it up to promote major historical changes in a short period of time. And part of the failure that allowed the oligarchical restoration was due in large part not only to the closed political setting inherited from the dictatorship period and not touched by the constitution, but also for not completely abandoning the neoliberal economic policies inherited from the reforms in the 1990s, adopted with the very purpose of concentrating income and wealth. The fact that these flows were shared by other classes, even for a short period and only to a moderate extent, made the pact unacceptable and subject to heavy attacks. It should not last. So, the oligarchical and neoliberal revolt was disproportionate to the limited changes promoted by the social democratic-clientelistic accord, although for Brazilian structural standards they were quite radical.

In addition, while part of the Brazilian bourgeoisie displays features attached to modern industrial, and urban financialized capitalism, with a recent preference for neoliberal policies of high interest rates and lower taxes on their income and wealth, another part still has aristocratic roots going back to the pre-industrial era, wary of democracy and universal rules. However, both fractions have a strong necessity to drain state resources (interest payments, tax subsidies and breaks, and cheap credit) and therefore to rely on authoritarian institutions and bureaucracies for maintaining their privileges. This means that the neoliberal restoration promoted by the *coup* is combined with unique long-lasting oligarchical and authoritarian features in Brazil.

What is interesting about the twin crises, therefore, is the way that it reflects, on the one hand, this long-term feature, an oligarchical trend toward state parasitism and authoritarian political exclusivity by its bourgeoisie. And, on the other, it accommodates and adjusts to changing external and internal circumstances regarding capitalist development by adopting neoliberal policies that transform the way wealth is produced and maintained and the appropriation of the flows of state revenues, with a modern discourse but backward practices of corruption and clientelism. The latter changes reduce economic dynamism and tax collection and create economic instability (Streek 2014),

whereas the oligarchical trend pushes for more tax revenues from the workers and middle classes to sustain the flows from the state to it, narrowing by necessity any democratic bias in the political system. That's how Brazilian capitalism pushes the contradictions it generates forward, combining itself with elements of the conjuncture to foster particular economic and political dynamics. Brazil is experiencing, it seems, a convergence of structural and cyclical factors, similar to any other capitalist crisis, but with elements specific to Brazil and its oligarchical bourgeoisie, in response to the possibility of slight changes in the balance of economic and political power that could make Brazilian society more equal and more democratic, challenging the current global neoliberal dogma.

This essay is an attempt to interpret what can be seen as the twin crises in Brazil, a preliminary exercise that requires more research to back some (or most) of its claims. Given this caveat, it is organized as follows. After this introduction, the second section briefly discusses the occurrence of crises in capitalism, pointing also to features that are singular in less developed or underdeveloped capitalist nations. Political crises are referred to as well. The third section discusses economic and political problems of the Brazilian society. It brings forth issues regarding cyclical and structural politico-economic features, and how they combine to generate the current twin crises. The final section concludes the essay.

## Economic and Political Crises under Capitalism

Capitalism has been remarkably and predictably unstable since its origins in the XIV<sup>th</sup> century (Heller 2011). Depressions, recessions, and all different types of cyclical disturbances have been plaguing this socioeconomic system since then, with different features, lengths, depth and so on. This means that some crises are worse than others in terms of the rupture caused or the period of time over which it lasts. Yet, this also means that a capitalist economy cannot be mired in a crisis situation forever. Eventually capitalist economies recover from crises, sometimes presenting a different structure, infra and super, from the one before the crisis, mainly in terms of concentration and centralization of capitals, sometimes with all the fundamental features intact. However, the recurrent nature of the crises also means that crises are pervasive and inevitable, which means that the system is structurally crisis-prone. The coming next crisis is a matter of time, although no one knows how long it will take for it to happen.

A crisis can be defined as a disruption in a pattern that is considered

normal regarding the recent past. In a capitalist economy, a crisis is understood by an interruption in the growth of capital accumulation and a reduction in profits in comparison with a situation deemed normal, with expanded accumulation and a fat mass of profits appropriated by capitalists. The problem here is that crises are equally normal under capitalism in the long haul, because the growth of capital accumulation is cyclical, and profits tend to fall when capital is accumulated in an unbalanced way at very rapid rates such that wages go up and exploitation does not follow suit (Shaikh 1990, Heller 2011). Crises are structural features, but reveal themselves only as cyclical phenomena from time to time. Excluding the Say's Law's barter fetish that sales are automatically granted by the very existence of commodity production, crises are endogenously created by the very operation of a capitalist economy, given its profit-seeking nature and the lack of control over the competitive environment where capitals struggle against each other and against labor for their shares of the mass of surplus values generated. But after the crisis has done its job of getting rid of less profitable capitals, capital accumulation, and therefore commodity production, and with it profits, resume, until the next crisis breaks in. That is, since crises are frequent but not permanent, periods of normality can be projected to continue forever, causing capitals (including credit) to accumulate faster, firms to introduce technical innovations, often with support from the government funding and stimuli, only to face a period of declining profitability and excess capital accumulation and commodity production again, showing the true normality of capitalism.

Macroeconomic policies, mostly fiscal and monetary, have been used intentionally at least since the 1930s to avoid the consequences of the crises, but not an important group of their causes<sup>5</sup>. Overall, it is assumed by proponents of such policies that the single most important issue regarding the cri-

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5 This led one of the most important orthodox economist of the twentieth century, Paul Samuelson, to claim in the 1970s that the National Bureau of Economic Research, responsible for dating the business cycle in the United States, had worked itself out of this job, since the cycles were over with the appearance of demand management macroeconomic policies. Robert Lucas Jr. another orthodox economist, equally claimed in 2003, from a laissez-faire point of view, that depressions were over, and therefore policies targeted at depression prevention were unnecessary. The worst crisis since the Great Depression started only four years later. This has been happening for decades. Marx identified this tendency already in the XIX<sup>th</sup> century: "In the crises of the world market, the contradictions and antagonisms of bourgeois production are strikingly revealed. Instead of investigating the nature of the conflicting elements which erupt in the catastrophe, *the apologists content themselves with denying the catastrophe itself and insisting, in the face of their regular and periodic recurrence, that if production were carried on according to the textbooks, crises would never occur.*" (Marx 1969, 500, italics added). In Marx's time, economic policies did not exist. But the claims by Samuelson and Lucas Jr. show that economists still believe in the revealed truths of their manuals.

ses of capitalism is the lack of demand for absorbing (realizing) the increased production caused by capital accumulation. However, under-consumption is only one possible reason for the existence of crises. As suggested above, other explanations include the sectoral imbalances between the production of capital goods and of consumption (wage) goods (or excess capital accumulation), profit squeeze caused by rising wages amidst increased competition and reduced rates of exploitation, and a falling rate of profit (the leit motiv of capitalism). Marx was wary of under-consumption crises as explained by low wages, for example. According to him, crises are preceded by an improvement in the living standards of the workers, provided by its turn by expanded capital accumulation. This does not mean that under-consumption crises cannot be caused by, for example, a lack of accumulation of constant capital (machines, equipments, buildings and raw materials) to absorb the surplus (profit) generated in the previous period (consumption here meaning also “consumption” of constant and variable capital). It is perfectly possible as well that fiscal and monetary policy can affect the rhythm of the crises, shortening their length and smoothing the fall in commodity production and sales by keeping profitability at levels compatible with capitalists’ expectations. As discussed below, this essay considers that either a profit squeeze or a falling rate of profit can explain the overall trend of capital accumulation in Brazil, but the political aspects of capital accumulation and fiscal austerity also played an important role in reducing aggregate demand.

Regarding underdeveloped capitalist economies specifically, crises have been equally a hardy perennial. For many years the crises in less developed societies were explained by appealing to external events, related to falling commodity export revenues (equivalent to under-consumption in foreign markets), failure to meet debt obligations (profit squeeze by interest payments in the distribution of surplus value), sudden stops in capital flows (interruptions in the circuit of international money capital), exchange rate collapse (monetary disturbances also associated with the circuit of international money capital) and inflation (conflicting claims), etc. But since the 1970s a literature has been developed pointing to domestic sources of disturbances as well, such as the late capitalism thesis that the cycle of capital accumulation has been more and more endogenous in many countries that lived up to industrialization (Tavares 1974, Melo 1975). Of course, if we consider the capitalist world economy as a single unity, it makes no difference to distinguish between external and domestic sources of disturbances. However, despite the process of increasing economic and mainly financial integration going on under neoliberal capitalism, the national state is still an important wedge between the internal competition of capitals and the world competition. This

warrants the separated analytical treatment carried out here between domestic versus external dynamics for less developed countries, along with a distinction between political and economic phenomena.

And an important feature of underdeveloped capitalist economies is their lack of technological development and the ensuing lower levels of labor productivity, notwithstanding their long-term association with multinational capitals from the more developed capitalist economies. This generates fragile economic structures, dependent upon world markets and exports of less sophisticated goods, a working class earning low wages and therefore sustaining lower levels of consumption. The reduced levels of capital accumulation and consumption creates a financial system interested in funding short-term, speculative activities, more than providing long-term money to capital accumulation and innovation. All these features contributes to underdeveloped capitalism to be more crisis-prone than advanced capitalism

Moreover, as Furtado (2002) argued, the bourgeoisie in those societies emulates the consumption patters of the bourgeoisie in the center, having a lavish life style and buying luxury goods abroad instead of accumulating productive capital. That is, the bourgeoisie is comprador. So, under-consumption by means of lagging domestic spending and over reliance on exports of raw commodities seems to be indeed an important source of crisis in the periphery, in the latter case coupled with the ensuing financial fragility in the balance of payments that reflects the problems of accumulation abroad. But as long as they are capitalist economies, albeit underdeveloped, they are prone to all but one type of capitalist crises, including profit squeeze and a falling rates of profit. The over-accumulation of capital is hardly a source of crisis in the periphery due to the fact that the backward, comprador bourgeoisie never accumulates enough without continuous support from the state (and in some cases, like Brazil, even with support) or from articulations with the international capitals.

Given the central role played the state in capitalism, and the necessity of organized political coordination of the nation state in order for it to function properly, political crises can have far reaching social and economic consequences, not being confined to the political realm of parties and their leaders and the functioning of state apparatuses. If it is assumed that politics is also class politics, and politics of class fractions, political systems are, just like the economy, instability-prone as different classes and fractions struggle to gain control of state apparatuses to implement their political program in order to foster their interests regarding the flows of resources to and from the state. Coalitions are formed and destroyed, for shorter or longer terms, based on the power of each fraction and its hegemony in the power bloc (Gramsci



1971); political alliances are re-framed and adjusted to rising new powers and collapsing old powers, or weak new powers and resilient old powers. In modern capitalist democracies, classes have access to state policies of spending, taxing, borrowing, and regulating, but not to the capitalist state structure itself, by means of political parties competing for bureaucratic and government positions in supposedly free elections. The legal institutions are devised to keep political conflict away from capitalist state structures, so that the capital relation in itself is never challenged, only the different political ways whereby to allow class domination. Politics is structured such that accumulation of capital and income and wealth concentration *per se* should never be affected or challenged by political conflicts, no matter how fundamental they are. This is reflected in all different permanent efforts to present economic matters as 'technical', 'scientific', and 'neutral' and political issues as 'not serious', 'intrusive' or 'interventionist'. Nevertheless, politics and conflicts affect the distribution of power and therefore the classes and fractions who benefit from income and wealth concentration at different moments in time.

By the same token, with money and wealth playing a significant role in politics, the adjective 'free' attached to elections must be qualified. Lenin used to say that the fastest way to burst an economy is to debase its money. The capitalist experiences in the twentieth and twentieth-first centuries confirm Lenin's *dictum* and adds a new feature of money: it is also the fastest way to burst popular sovereignty and the importance of elections (true democracy is something else completely). Money can destroy suffrage by buying politicians (they are for sale in wholesale – political campaigns – and retail – bribery). Money can also destroy suffrage by not buying variable and constant capital and boycotting elected governments by investment strikes, as it happened in Brazil.

The political system tends to be, overall, rigged in favor of moneyed interests well positioned in the struggle for the concentrated income and wealth typical of capitalism, usually those already in functioning power structures. It is rigged not in terms of results, that is, which political party or coalition is allowed to win, although of course capitalists put a lot of money in the campaigns of their closest and most loyal allies, but mainly in terms of policies that are acceptable (techno-scientific) and policies that are not acceptable (interventionists or populists) by the existing hegemonic bloc of wealthy and powerful at a given point in the evolution of capitalism<sup>6</sup>. A ruling party or

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6 Former US President Bill Clinton complained about the power of money to veto progressive political programs during his re-election campaign. According to Woodward (2005, 73), when he was told that finance would not accept a more progressive political program, Clinton retorted to his economic staff "You mean to tell me that the success of the program and my re-elec-

coalition may be challenged on several grounds, within the legitimate and legal rules of electoral competition, including the agreements to end existing or political crises in the making. When coalitions of powerful moneyed interests cannot have their interests fully addressed by the normal functioning of the political system, because other powerful fractions or classes are competing for the same end, with similar resources or more viable coalitions, in general the former can get the upper hand by means of force, including military or parliamentary *coups d'Etat*. The reason is either a fundamental disagreement that cannot be settled under normal political disputes or an exhausted alliance that no longer works for the allied parties and politicians and their existing powerful constituents. Of course, instability does not preclude the low politics of treachery, corruption, crave for power, frustration with political defeats, and so on and its capacity to destabilize political systems.

Economic policies, as the name tells it, are about the politics of economics as well as the economics of politics, and are employed regularly to avoid capitalist economies to hasten their trend toward crisis of under-consumption, or when recent expected economic trends are not fulfilled (including falling profitability). Considering the instability of capitalism and how economic policies can address them, the occurrence of a cyclical downturn, although recurrent and therefore not unheralded under capitalism, raises the question: Why exactly at that time? There is no way to predict when crises erupt in capitalism. The question is whether or not crises can happen in capitalism regardless of the policies chosen by the state and the political managers of capitalism. If they can, this means the focus should not be exclusively on the mistakes of economic policies. If they can't, so the instability of capitalism can be explained uniquely by the policy choices of the executive committee of the bourgeoisie<sup>7</sup>.

Politics in a capitalist society, therefore, and by means of hierarchical assignments of power at the national level, is mostly about the management

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tion hinges on the Federal Reserve and a bunch of fucking bond traders?" Portugal's President Cavaco e Silva addressed the Nation rejecting the possibility of abandoning pro-austerity policies when the majority of political forces against austerity won the parliamentary elections: "This is the worst moment for a radical change to the foundations of our democracy. After we carried out an onerous programme of financial assistance, entailing heavy sacrifices, it is my duty, within my constitutional powers, to do everything possible to prevent false signals being sent to financial institutions, investors and markets." (Evans-Pritchard 2015). By doing so he has made the Portuguese Constitution a dead letter. It is clear that the foundations of democracy in Portugal, in his view, is to accommodate the wills of the financial sector against the vast majority. This is not a free democracy by any means, but a dictatorship of financial markets.

7 Gilens and Page (2014) show statistically that the marxist instrumentalist thesis associated with the work of Ralph Miliband is correct for interpreting the political system in the United States, for example.

of political conflicts between capital and labor, and among fractions of capital over surplus extraction and distribution. When capital accumulation and the production of commodities and its distribution in the form of profits falters, that is, a period of economic instability, the political system is called to re-balance the distribution of the surplus in favor of capital, so that accumulation can be resumed at the previous rhythm. It is necessary for capital to crush labor if political opposition is stubborn due to democratic institutions conquered by previous struggles. Sometimes the state bureaucracy may gain autonomy from class struggle and share a large fraction of the surplus. When an accumulation crisis happens under such conditions, an economic war waged against the government and the institutional source of autonomy, not the state as a whole, may be necessary.

On top of that, in underdeveloped countries the undue political importance of fractions of capitals tied to primary sector production and the lack of substantive democracy usually results in the formation of oligarchies (Stephens et al. 1992). Even today modernization and capitalist development could not get rid of this feature in many underdeveloped countries. Actually, capitalism and oligarchy are combined in many different ways, with oligarchs keeping political positions and media control, and at the same time promoting the economic interests of the different capitalist fractions not rarely by means of bribery. Moreover, even in the advanced capitalist countries the recent rise of oligarchical power, as opposed to the long-lasting feature of underdeveloped nations, is widespread (Reich 2015, Johnson 2009)<sup>8</sup>.

Hence, broad democratic institutions represent a threat to those ruling powers and must be avoided and only minor concessions made to grant some legitimacy to the capitalist state and its class politics, so that the political programs associated with electoral results, never the political parties in charge of their implementation, must be considered within acceptable ranges. If they are not, a crisis must be concocted, and as it develops and reaches worrisome proportions, the defeated oligarchy dethrones the winning forces from power by overthrowing the meager democratic institutions altogether. For example, in modern capitalist economies political crises could be a necessary result of resistance to neoliberalism ('technical' measures seen as the only acceptable program for delivering growth and stability) when capital accumulation is imperiled. That is, coalitions of neoliberal forces cannot always win elections when workers are consciously well organized, even with expensive campaigns and media control. Neoliberalism usually requires a shock doctrine to be implemented (Klein 2007), and when such a clash does not happen, an artificial one, in the form of a political crisis, must be contrived. But it is part of the

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8 Interestingly, Johnson also refers to a coup in the US by a financial oligarchy.

modern neoliberal oligarchy, up to this moment, to avoid the use of violence unless strictly necessary. It could be possibly used in foreign lands to support weak oligarchies, but it is not pervasive like it used to be in the past. The modern ruling capitalist class prefers to overthrow progressive governments (and sometimes even not so progressive ones) with ‘intrusive’ policies by using their own capitalist state, that is, creating a situation of political instability in which laws and institutions do not seem to work properly under current executive guidance. The bourgeois institutions cease to be universally valid (giving up on the need for legitimacy) and are employed in particular, class-based ways (showing their true nature) when accumulation and profits are, really or only perceived, seriously threatened.

## **Cyclical and Structural Features of the Brazilian Twin Crises**

As stated above, crises are inherent under capitalism. But disturbances are just the outcome of several different socioeconomic, cultural, and political movements at play. Crises can thus be thought as the result of a complex process, and they will exist as long as the determinants of the process continue. So, it is important to identify those determinants and the ways they shape the process and therefore the crises. Economic crises can lead to political crises, and vice-versa. This is so because continuous accumulation requires political support in the form of laws, contracts, state control over workers and their class institutions, and ‘appropriate’ (which may be opportunistically ‘technical’ or ‘intrusive’) economic policies, whereas politics and class politics depend on the ability of accumulation to generate fiscal funds for supporting the political system and the entire capitalist state apparatus. Yet, it is very difficult to distinguish between them or to determine their temporal sequence of causation and mutual influence. It is even hard to sort them out when both happen with high intensity. But this work attempts to separate the two forces leading to the twin crises, and also assumes a temporal separation between cyclical (short-term) and structural (medium- and near long-term and far longer-term) factors, highlighting the likely conjunctural political and economic features on the one hand and structural complexions on the other.

### **Short-term or Cyclical Features of the Twin Crises**

Brazilian capitalism displayed an unusual period of political stability and economic expansion from 2004 to 2011. As Minsky would defend, however, stability breeds instability, and capitalism cannot exist without crises. Every period of expansion must, by necessity, end. And the favorable situation

for domestic capital has changed considerably since 2012, with Brazil currently being in a dire economic situation and a political maelstrom. Regarding the economic conjuncture, overall commodity production has lost momentum, stagnating in 2014 and falling deeply in 2015. The Federal Government entered a period of paradoxical economic policies, combining ongoing neoliberal contractionary policies (such as keeping high interest rates and primary budget surpluses) along with anti-cyclical policies adopted to avoid unemployment rates to soar, mainly by means of subsidies and cheap credit to industrial capitalists (Serrano and Summa 2015).

As a consequence, the results in terms of capital accumulation were poor. More important, Brazilian capitalists decided to act politically and provoked an investment strike (Rugitsky 2015). Under-consumption kicked in. Unemployment rates were maintained relative low in 2014 (helping with the reelection of Dilma) and 2015, but have been on the rise more recently, reaching levels above 10% in 2016. Inequality stopped falling. A spike in domestic prices at the end of 2015, mostly due to correction of administered energy prices and a strong currency depreciation, caused the inflation rate to break the upper limit of the inflation targeting regime for the first time since full-fledged neoliberalism was abandoned in the beginning of the 2000s. Deficits in the current account increased, with a pronounced decline in exports, although the depreciation seems to be reverting this trend in 2016 (that is, under-consumption also in the external sector). Foreign direct investment had been higher over the past lustre or so, not diminishing significantly over the crisis. But a large fraction of it is made up of inter-companies loans, just to profit from the stubbornly and structurally high interest rates in Brazil (Marques and Nakatani 2015). Primary budget surpluses turned into deficits due to the recession, contributing at first to avoid an even deeper recession (given the automatic stabilizers of fiscal policy). But an attempt at deeper fiscal austerity measures, led by Ministers Joaquim Levy and Nelson Barbosa in 2015, contributed to transform the downturn or semi-stagnation into a full-fledged recession.

Fiscal problems have been presented by conservative scholars as the single most important source of economic and political problems, with the government hiding the real fiscal stance by accounting gimmicks in 2014 and deserving to be impeached on that ground alone (because it affected the electoral results). But could creative accounting, widespread also in the private sector in a capitalist economy<sup>9</sup>, but not less acceptable because of that, cause

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9 Just to give a recent example from Brazil, avoiding mentioning the Libor scandal, one of the leaders of the plutocratic and coup-mongering media, newspaper (sic) Folha de São Paulo, cooked up the number of a poll of its own statistical institute, the suspect Datafolha, which

a severe crisis such as the one Brazil is facing? The initial answer is “no”. It would be needed a quantitative exercise to provide a more precise answer, but it is unlikely, since the short-term transfers using public banks and postponements of debt repayments sustained additional spending in the economy in a year of weak economic activity. Anyway, this increase does not seem to be relatively large by any reasonable measure to revert capitalist expectations. And the investment strike, as shown below, started in 2013. Of course, with hindsight it is possible to argue that a specific policy has not worked by just looking at the outcomes, without making any effort to establish more precise connections between cause and effect.

As argued in the previous section, in a capitalist economy, macroeconomic policy can have non-negligible impacts on capital accumulation and commodity production, distributive conflicts for the surplus, international competition, credit growth, and so on and so forth. But the crucial decision regarding the pattern of accumulation and production in a capitalist economy belongs mostly to the capitalist class and its strategies of expanding its wealth. Once it falters, the economy bears the brunt of the ensuing crisis. That is, regarding stabilizing macro policies, they can dampen or exacerbate the initial movement, but not completely eliminate it. Otherwise the state would have full control over the economy a la Samuelson or Lucas Jr, and this has not definitely been historically the case. Apparently, what one can see is a political decision by the government, a political and economic decision by capitalists, and a crisis, not necessarily in that order. What neoliberal economists usually do is to always assume the same sequence of events, suggesting that the policy mistakes by the government, no matter how relevant they are, and denying any political role to the decisions made by capitalists, are at the origin of any and all capitalist crisis.

These conservative (or neoliberal) scholars are in general prophet of past facts: intrusive economic policy went wrong because there was a crisis. That is, crises result from bad government management. It has been, they argue, always like that. The Great Depression was caused by monetary policy mismanagement (Friedman). The Great Recession was caused by subsidies to finance housing and regulations to force banks to make bad loans to poor borrowers. In this view, if economic policies were sound (correct, that is, neutral and scientific), there would be no crisis. This is the Samuelson-Lucas syndrome: business cycles are over, conditional on governments pursuing the right policies (aggregate demand fine-tuning in the first case, doing nothing

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failed to predict many political results in the past elections in Brazil, even considering the confidence interval, in order to beef up the situation of the coup-monger new President who conspired to oust Dilma Rousseff (Greenwald and Dau 2016).

in the second)<sup>10</sup>.

There were policy mistakes in Brazil? Of course. The huge amount of subsidies to the Brazilian bourgeoisie is probably the most important one. Since capital accumulation was not re-enacted, the State could not recoup, in the form of accrued tax revenues, the money donated. A larger fiscal imbalance, already large due to interest payments to rentiers and all the capitalist classes, ensued. So, the bourgeoisie first emptied the Treasury. And now, by means of a Parliamentary *Coup d'Etat* supported by all the oligarchical groups in the industrial bourgeoisie, media groups – a perpetual steward of anti-labor propaganda – rentiers, financiers, and agribusinessmen, and conservative religious zealots, they launched a neoliberal program with a labor reform to empty the working class pockets.

Domestic credit flows came to a stop in 2015. Monetary policy was tighten up beginning in 2013 as part of the structural neoliberal policy making that states: in case of doubt, raise the interest rates. Real interest rates were raised in a movement contrary to what was happening in the world, given that most central banks were setting very low interest rates. However, interest rates are so absurdly high in Brazil that it is not clear whether incremental changes in them, the way monetary policy have been traditionally implemented, can cause any substantial change in spending financed by credit. It seems that it could have an impact from the income distribution perspective, with ongoing increased transfers from workers and industrial capitalists to rentiers (and many industrial capitalists in Brazil are rentiers – the investment strike caused a major availability of money to be accumulated in the form of financial assets) – causing a reduction in spending (under-consumption) and an increase in the financial wealth that enables the absorption of these transfers.

Monetary policy, in this regard, is more a structural feature of Brazilian capitalism in the age of neoliberal financialization and bears very little

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<sup>10</sup> See footnote 2 above. Actually, this is an excuse for capitalist instability. Orthodox economists always have more excuses than models, making it possible not to repeat the same excuse twice (Rodrik 2005). The Samuelson-Lucas syndrome reflects this view. Conservative (neoliberal) scholars would argue that 'we' (intelligent and wise economists) have learned for a long time how to prevent crises, but they (politicians and bureaucrats advised by "obtuse economists") have not followed the acknowledged right rules, probably delivered by a superior being in the heavens, in the form of a table of natural laws scribbled in the manuals– it is not a coincidence that N. Gregor Mankiw, the high priest of the orthodoxy, has ten principles in his textbook – regarding the absolutely correct and flawless economic policy making laws of the universe that must support the (always technical) decisions about economic policies. Thus, repeating the same mistakes of the past is due exclusively to stubborn populist governments and their economists who do not see the definitive natural laws of the economic universe.

responsibility for the great reversal leading to the twin crises. However, when President Dilma Rousseff tried to contribute to softer monetary policies in 2012 by reducing interest rates charged by public banks, being followed by the Central Bank in its decisions about the policy rate, there was a political and financial backlash from the rentiers and stories about the Armageddon and the apocalypse that would follow. The reduction in interest rates would lead to a perfect storm for capital accumulation and wealth and income concentration in the hands of the bourgeoisie and could not be allowed. That is, Dilma tried to solve what appeared to be the Gordian-knot of the Brazilian financialized capitalism, the supposedly major structural constraint for sustained economic growth and better income distribution in Brazil since the neoliberal program was adopted: the highest real interest rates in the world. However, financial income provided by fiscal transfers was perhaps the single most important issue unifying the bourgeoisie in Brazil, and it is likely to have, along with the pressure on real profits, hurried the neoliberal oligarchical revolt, with an investment strike accelerating the cyclical downturn. The policy of high interest rates had to be resumed no matter what.

Moreover, by not fully abandoning fiscal austerity policies amidst a recession and a shrinking world market, it created the conditions for a major continued crisis. Fiscal stimulus was first implemented, but not by means of increased government spending and investment, relying instead on fiscal relief for industrial capitalists. Unemployment remained low for a long time after the crisis started. But investment did not follow suit, the recession deepened, and the political alliance was in tatters, that is, the social democratic pause was over. Economic turbulence breeds political turbulence.

Of course, with low unemployment rates, President Dilma Rousseff was reelected in 2014, but by a narrow margin, notwithstanding the relatively poor economic situation started with the descending phase of the accumulation cycle and the “downturn boost” from an investment strike in 2013. There was now open opposition from the industrial bourgeoisie, the agribusiness sector that houses most backward oligarchs, and the would-be modern financial sector. The corporate media intensified its continuous attacks, claiming for a Parliamentary or Military *coup*. The massive street demonstrations of 2013, against the world cup and in favor of better public services, shattered the political pillars of the corrupt political system (Castro et al. 2014). After that, mostly white, upper middle class, and conservative voters defeated four times in a row in the presidential elections, funded by the corrupt oligarchical parties, started street manifestations for the first time since the military-corporate *coup* in 1964, sometimes demanding another corporate-military *coup*. Coupled with a declining economic activity, the popularity of President Dilma



Rousseff went south. The oligarchical restoration was ready to get in place again and put an end to the political instability it nurtured in the first place. The bourgeoisie in almost its entirety backed the *coup*, as it did many times before, including financing the 1964 entrepreneur-media-military *coup*. And the old, unabashed neoliberal economic program had no more waiting for its return, thought to be the answer for the very structural economic problems it created in the first place.

The elections for the House of Representatives and the Senate has been funded by corporations and more and more influenced by religious fundamentalist leaders. As a consequence, a coalition of conservative, neoliberal, and neo-fascists took the majority of the legislative power, creating the conditions for defeating any hopes of a social democratic government and restoring the oligarch hegemony by a parliamentary *coup* in 2016. Opposition within the state apparatuses became stronger, with fractions of the judicial system and the federal police acting to blow up the workers' party coalition by customized, targeted investigations, and unlawful use of coercive measures. There was a major setback for the government when the single most important clientelist political partner abandoned the alliance that reelected President Rousseff. Many attempts were made by the oligarchy at reverting the election results, including a recounting of the votes, and many mandates at the courts to nullify the results, because construction companies involved in corruption scandals, mainly related to the state oil company, Petrobras, contributed to the workers' party election fund, notwithstanding the fact that the same companies contributed even more to the corrupt defeated coalition of hard-die neoliberal oligarchs. These are the political elements of the oligarchy (and the upper middle class) revolting against the government that improved the standards of living of the poor and the workers (a not deadly sin), and tried to force a reduction in interest rates (deserving the death penalty).

Of course, there are also geopolitical issues involved. As it always happens, the role of the United States will not be revealed until the conditions are ripe for it not to cause a major political setback. Many analysts like Mark Weisbrot (2016a, 2016b, 2016c) and Peter Koenig (2016) are pointing to the existence of a *coup d'Etat* and to the role of the United States in it. Brazilianist James N. Green wrote a letter to the U.S. Representative at the Organization of American States denouncing the *coup* and the mistakes of fully backing it again, like in 1964. It may not be a coincidence that Brazil had during the period leading to the *coup* the same U.S. ambassador that served the U.S. Paraguay's Embassy when another parliamentary *coup* took place, Liliانا Ayalde. It is not a coincidence either that the Petrobras investigations, with a significant potential to deliver a large blow in part of the corrupt political system in

Brazil, has turned into an instrument of political revenge against the workers' party. Petrobras is the company target of NSA spying and will be privatized to foreign firms, most likely US oil companies. On the other hand, it is clear that the Brazilian bourgeoisie lacks the cognitive abilities to contrive alone such a plot against democracy on its own. Just like the corporate-military *coup* of 1964, the parliamentary *coup* in Brazil pleases the U.S. Department of State and its foreign policy. The subordinate role that the Brazilian bourgeoisie and its partners in the state bureaucracy are willing to assume in regional and world affairs, something that changed during the workers' party-led government in exchange for keeping part of the wealth produced and extracted domestically, avoids political clashes with the imperialist forces.

Hence, on the economic side there was an expected typical cyclical downturn, not surprising after a relatively long (for Brazilian standards after the 1980s) boom, since a bust is what must follow a boom in capitalism. However, under the pressure of financial interests to adopt even more austere fiscal policies, the government decided to cutback on federal government spending, mainly investments and outlays related to social protection. At the same time, the investment strike by industrial capitalists contributed to the economic collapse. The strike can be understood as conjunctural decision to influence the results of the 2014 election at first, along the lines suggested by Michal Kalecki in 1943 on the political aspects of full employment. When it failed to accomplish its political aims, it could not be reversed so easily, given the multiplier and accelerator effects. And on top of that, in 2014 the investigation of corruption scandals affected investments from Petrobras, a major source of capital accumulation in Brazil, along with the construction sector, another important capitalist sector with some endogenous technological development. This led to a major reduction in effective demand and contributed to cause a deep recession by means of under-consumption.

Therefore, Brazil has been crossing a major convergence of an economic crisis in which an expected cyclical downturn in the economy has been turned into collapse by means of an accumulation strike and an attempted austerity policy by the government. The Brazilian oligarchy was ready to take advantage and restore its political power by causing a political crisis within the lower house of representatives, with the partial judicial system taking its part by legitimizing the unlawful practices of the car wash task force in its anti-workers' party operations. With the declining economic activity, it could also easily manipulate the conservative and neo-fascist middle class through the *coup*-mongering media, which promoted an intensive, 24-hour attack on the workers' party, creating a momentum for the retreat of the restricted democracy. The economic crisis feeds the political instability, that feeds back on

the loop and deepens the economic problems.

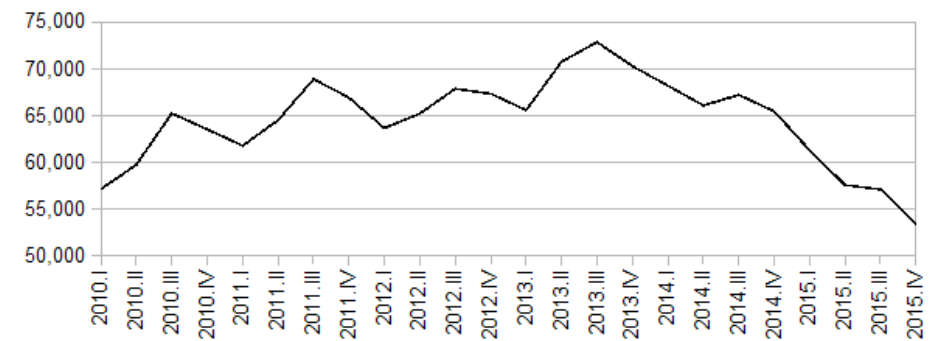
The parliamentary *coup d'Etat* of 2016 is the crowning achievement of the political revolt of the neoliberal oligarchs, until then subsumed under the social democratic accord, but not completely defeated. The *coup* was seen as a solution to the short-run economic malaise by reducing political uncertainty associated with a coalition that includes the workers and the poor. Nonetheless, the economic program of this fraction of the oligarchy is the unrestricted neoliberal one that failed to restore economic growth in the 1990s, but which is believed to unite all the fractions of the bourgeoisie against the workers' party and the left in general. This means this economic program may not restore sustained economic growth, or even revert the current recession in the next couple of years. But its goal is to concentrate income and wealth, with a declining share of wages in the national income, just like it used to be before the social democratic intermission.

### Medium-Term Transitional Economic Determinants of the Twin Crises

The above confluence of political and economic processes toward a full-fledged twin crises may not make explicit all the relevant components of such dynamic evolution. Therefore, it is important to identify and highlight some of the semi-structural and structural economic and political features that have shaped the above trends and behaviors. That is, the cycle is intertwined with the trend, and the trend must manifest itself in the form of cycles. The political time is different from the economic time, though. The medium run, the interval between the short and the long run, extends temporally the former to the latter. However, it is assumed here that during this interval the political short-run dynamics does not change, only the economic forces. Short-run politics is molded by long-run trends. Thus, it is important to understand the medium-run economic dynamics leading to the short-term economic and political results, for a given political setting, keeping in mind that politics is also carried out in civil society, mainly companies, not only at the state apparatus.

Considering the economic tendencies, chart 1 shows the trends for medium-term capital accumulation, from the end of the booming period (2010-2013) to bust (2013-2015). The depicted accumulation strike could be interpreted as an economic response by the bourgeoisie, starting in 2013, to the distributive measures that favored labor for almost a decade, and also as a short-term strategy to defeat the workers' party-led political coalition. That is one way whereby money boosts democracy.

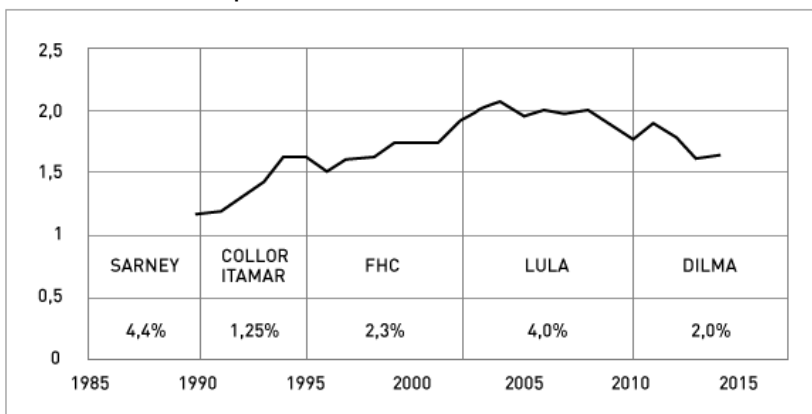
**Chart 1 – Quarterly Gross Fixed Capital Formation (BRL R\$ million, prices of 1995)**



Source: Elaborated by the author using data from IBGE.

The short-term investment strike discussed above also reflects the medium- and long-term class conflict depicted on chart 2, estimated by Prado (2014) and central to understand the current capitalist crisis in Brazil, with low unemployment rates improving the bargaining power of workers and causing the rate of exploitation to fall under the social-democratic-clientelistic government. Minimum wages and mean wages increased fast. A profit squeeze must have been a likely result of this combined increase in wage and reduced exploitation of labor. The falling rate of exploitation under Presidents Lula and Dilma, although the rate was still higher than under unabashed neoliberalism, clearly preceded the decline in capital accumulation caused by the strike. The rates of real GDP growth, shown at the bottom, follow the rate of exploitation and illustrate the medium- and long-run trends.

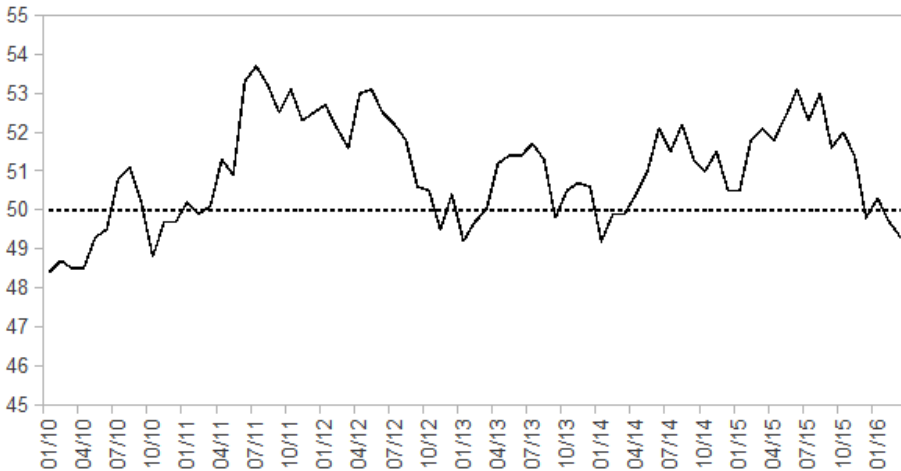
**Chart 2 - Rate of Exploitation in Brazil (1990-2013)**



Source: Prado 2014, p. 3.

On the other hand, industrial capitalists have experienced an overproduction of industrial commodities. Chart 3 shows that only for short periods of time over the interval 2010-2015 the effective inventories were below the expected (meaning a faster rate of surplus realisation), and not by a large margin. So, despite the rapid growth of exports, rising wages and credit to consumers, and steady increases in capital accumulation from 2004 to 2013, capitalist production could not be sold at the expected rate. A possible explanation is the sustained primary budget surpluses imposed by the neoliberal legacy over the period. When primary budget surpluses turned into deficits due to the crisis, the level of inventories started falling, and dropped below expected at the end of the period shown.

**Chart 3 – Evolution of Manufacturing Inventories (Planned x Effective) (Jan. 2010-Mar. 2016)\***



Source: Elaborated by the author, using data from CNI (Brazilian National Confederation of Industry).

\*Numbers above 50 mean inventories of unsold goods are above expected levels.

### Long-Run or Structural Trends

After the end of the import substitution process in the 1980s, Brazil suffered a major external debt crisis, economic stagnation, fiscal difficulties, and episodes of hyperinflation. At the same time, industry already started losing importance, suggesting that the Brazilian industrial bourgeoisie could not survive without state support. The solution devised by the bourgeoisie, contradictorily, was to adopt a neoliberal policy inscribed in the Washington

Consensus in three steps. The first structural reform was targeted at external trade, given the reliance of the bourgeoisie on markets relatively isolated from imports. This required opening up the economy to trade: capitals operating in the Brazilian economy would now have to compete with capitals producing commodities around the world; both capitals from settled bourgeoisie in the developed center as well as the rising bourgeoisie in the less developed world, mainly Asia, not to mention the heavy alliance between State and capital in China. The second step aimed at reducing the participation of state in the economy by means of deregulation and mainly privatization of state-owned assets, despite the sizable increase in the tax burden that took place under neoliberalism. The third structural reform included the stabilization plan of 1994, which created the conditions for increased financial accumulation by means of a strong domestic currency and skyrocketing interest rates paid out of higher taxes on the middle class, the workers and the poor. Financial liberalization increased the financial fragility of the country, with three major agreements with the IMF being necessary to stabilize the flows of capital and the price of the Brazilian currency.

On the political ground, in 1985, after massive pro-democracy street demonstrations, as the economy was experiencing a major challenge, the military and the oligarchy were confident that their rule could no longer be challenged from a truly progressive perspective. The corporate media was never so powerful before. The communist parties had been handicapped. The two major official parties were loyal to the oligarchy, and the workers' party was becoming important, but still at its infancy. Therefore, Presidential elections could be allowed again, and a new Constitution, with legitimate formal democratic features, was written in 1988. This new democratic legislation represented a major departure from the Constitution enacted under the military-corporate dictatorship in 1967. And, despite the oligarchical control of the congress, progressive measures were introduced and approved to legitimize the new form of institutional control by capital. Political participation resumed. An outsider from a regional oligarchy, Fernando Collor de Mello, was elected President in 1989, with a platform aimed at hunting 'lazy and wealthy' public servants. His political program introduced elements of a full neoliberal platform, opening up the economic to international trade (first neoliberal reform). However, he confiscated liquid assets to dampen fast-rising inflation, based on an ultra-monetarism, and suffered a process of impeachment under corruption charges. That is, economic instability fed political instability. And yet, the political rule of the oligarchy and the political system were not questioned, so that the political problems were solved by replacing the President without further consequences. Economic instability had to be

solved by a major political rearrangement of capitalist fractions. Vice-president Itamar Franco assumed and paved the way for a full-neoliberal coalition led by Fernando Henrique “Blessons le pauvres” Cardoso.

The transition to full-fledged neoliberalism under oligarchical rule was carried out by a spinoff of one of the two official political parties allowed to exist by the dictatorship. Again, the political system was working well for the ruling classes and fulfilling its role of achieving political domination and excluding the workers and the poor from the governmental decision center. The major structural changes required to implement neoliberal reforms had to be settled with minimum intra- and inter-capitalist conflicts. Although this was made difficult by the ongoing economic crisis, the oligarchy had not many options given the international transformations of capitalism and the pressures from international capital on underdeveloped economies. The political accord was achieved by an oligarchical alliance between the leading party that supported the dictatorship and the offspring of the official opposition party to the military-corporate rule. That is, the political system was still ruled by the same forces that coexisted under the umbrella of the military-corporate dictatorship. By excluding organized labor from the agreement, capital, mainly financial capital, would feast. The re-election of Fernando Henrique “Amochons les pauvres” Cardoso in 1998 confirmed the oligarchical hegemony under neoliberalism. The crisis changed the mix of policies under the auspices of the IMF, with inflation targets, floating exchange rates, and fiscal austerity (since neoliberals could not avoid large deficits as a consequence of their policy of unbelievably high interest rates).

Fernando Henrique “Ecrasons les pauvres” Cardoso took himself to the task of abolishing the labor legislation developed in the 1930s under President Getulio Vargas as a fourth step (he derisively call it the “Vargas’ Rubble”). Despite being reelected by means of keeping a strong currency, and a moderate but rising inflation, he attempted to deepen the neoliberal program by attacking the workers’ pockets and labor rights, but could not destroy the labor protection rules, not even the trade unions (that the dictatorship tried to smash, but could not destroy, creating instead the political cradle of Lula da Silva). And real minimum wages had dropped so low since the peak just before the military-corporate dictatorship in the 1960s, that it was no longer possible to keep them at such depressed levels even in a formal bourgeois democracy. The government decided that it could start raising it again without creating problems for capitalists. However, the unemployment rates were kept high enough to depress the labor share in national income, providing a major transfer from labor to capital in the form of low mean wages, along with state transfers in the form of interest payments.

Those pro-finance and pro-capital reforms represented a major watershed for restructuring Brazilian capitalism. The state, rather than providing cheap goods and services to industrial capital (including capital applied in the agricultural sector), was now devoted to promote interest transfers to finance (including financialized industrial capital) and cheap labor to industrial and commercial capital. The oligarchy had a different ruling fraction, with financiers and rentiers replacing the industrial and commercial bourgeoisie as the dominant fraction. Of course, the industrial bourgeoisie adapted to this new accumulation trends by becoming increasingly financialized (Bruno et al. 2011). It became clear that, despite the increased discipline of labor by means of higher unemployment rates, the industrial bourgeoisie could not compete with foreign capitals. The pro-finance policies of keeping skyrocketing interest rates and a strong currency depressed industrial profits, compensated only by wage moderation. This represented an opportunity for importing machines, technology, and strategic inputs, promoting the renewal of industrial plants spoilt by the opening to trade. And after a foreign exchange crisis in 1999, the currency lost its strength, creating relatively better competitive conditions for domestic industrial capital to export. An agreement with the IMF reinforced the pro-finance policies, with measures of permanent austerity being imposed in order to guarantee interest payments to rentiers no matter what.

Regarding economic growth, the strategy not surprisingly failed. As a consequence of full neoliberalism, capital accumulation as a share of GDP slowed down at the same time that financial accumulation increased (Bruno et al. 2011). Real per capita income stagnated and unemployment rates stayed high throughout the period. Exports were meager, and after most state-owned assets were privatized, foreign flows of capital declined. This should have created fissures within the bourgeoisie, with the exporting sector and the industrial sector bearing the brunt of the structural change regarding the distribution of the economic surplus. However, their class interests trumped any other consideration, and they kept their political support for their right-wing government. The Brazilian oligarchy reorganized itself, and adapted to this major change in the development of world capitalism, accepting lower profits by means of production and sales and accepting bigger rentiers' incomes.

Nevertheless, the continuous poor economic performance coupled with the pro-capital policies that shifted income away from labor led to a political reversal, highlighting the fact that the oligarchical electoral system had failures. The workers' party, which had gradually abandoned its more radical demands, won the elections with a pro-labor and pro-poor platform. After winning the election, Lula had to retreat politically and declare in a letter to Brazilians that more radical measures, that is, a full rupture with the neoliber-



al program, would not be adopted. This accord to deliver the results expected and acceptable by the bourgeoisie facilitated a political truce with the moderate bourgeoisie, but sealed (actually entrapped) the fate of workers' party rule in the long run. That is, the political result (electoral victory of a social-democratic-clientelistic alliance) in itself was not relevant, only the guarantee that the 'appropriate' policies, that could not resume sustained growth and capital accumulation in the previous period, would still be pursued. So, the oligarchical rule could not be completely challenged, and yet the bourgeoisie had to accommodate, temporarily, a role for the workers and the poor in the policies of the Brazilian bourgeois State, and forfeit the income that was being also being shared with other classes and fractions. The global crisis did not hit strongly the Brazilian economy, suggesting a resilient economic setting, notwithstanding the financial fragility that characterizes capitalist economies in the current period.

Anyway, the influence of economics on politics became clear in the more recent Brazilian experience leading to the *coup d'Etat*. After that dismal economic performance under neoliberalism in the 1990s and beginning of the 2000s, Brazilian society, exhausted and hopeless, decided to change its political leadership within the rules allowed by the bourgeois institutions. Of course, political maneuvers among the ruling class were also necessary, in the previous period, to implement neoliberal policies that would potentially hurt a fraction of the bourgeoisie and overcome the economic crises of the 1980s and early 1990s – that is, the influence of politics on economics is also blatant. After the political change, when for the first time a mass left party was allowed to be part of a victorious coalition under bourgeois institutions, from 2004-2011 Brazil became an outstanding economic player in the world economy, presenting moderate growth rates of commodity production, lower unemployment rates, rising minimum wages, restrained inflation, and, for the first time in a very long time, falling income inequality, with slightly improved personal and mainly functional income distribution. This all happened despite the embracing of the macroeconomic policies from the unsuccessful neoliberal period. For instance, successful transfer income programs were responsible for eliminating extreme poverty for a large fraction of the population. Credit was expanded as never before, mainly by public banks. For the first time in history the country obtained the investment grade by the credit rating agencies.

The political change affected the economy in many other different ways. Capital accumulation, a major issue regarding the economic stability of capitalism, proceeded swiftly, and Brazilian capitalism seemed to takeoff after two lost decades. Despite the drag on realization represented by the type

of neoliberal macroeconomic policies adopted, i. e. the government sustained primary (excluding interest payments) budget surpluses above 3% of GDP for quite a long stretch of time, higher wages and credit seemed to even it out. Interest rates, although still one of the highest in the world, created another weakness in realization, but it fell from 2004 until 2013, and credit, with the support of public banks, grew at hefty rates. Inflation was mostly above the central point target established by the National Monetary Council, but within the tolerance intervals allowed. Exports in general, and of raw materials in particular, mainly to China, grew at substantial rates. South-South cooperation allowed the diversification of trade partners and the opening up of new markets to the Brazilian bourgeoisie. The current account deficits, a structural feature of an underdeveloped economy due to services and net property income from abroad, stayed close or below 3% of GDP, with a short period of surpluses. Brazil received continuous flows of foreign capital, accumulating sizable amounts of foreign currency. The global economic crisis of 2008-2009 did not have a strong impact on Brazil, and the economy grew above 7,0% in real terms in 2010, despite the fact that the capitalist economies in the more recent period are more fragile.

This relatively good economic performance, by its turn, fed back on the political landscape. President Lula da Silva, as a consequence of the continuation of the above trends, and of course in 2002 anything seemed better than the failed hard-core neoliberalism of the 1990s, was reelected in 2006, and President Dilma Rousseff, for the same reason, was elected in 2010 (Castro et al. 2014). Both won the elections on an attenuated social democratic platform that delivered better results than hardcore neoliberalism, although not only for the bourgeoisie. The political alliance with the clientelist center, led by the workers' party, had lukewarm support from a large number of parties, including traditional industrial and rural oligarchs. The defeated neoliberal right-wing proposals had no major repercussion in society, except for their sempiternal corporate and plutocratic media partners and isolated members of state bureaucracy. Complaints about very high wages and income transfers were heard, but with no further political actions coming from the bourgeoisie and the oligarchy. Corruption, intrinsic to the Brazilian State and political system, suddenly started being remembered continuously by the traditional corrupt elites and considered as a permanent feature of only progressive political alliances. The conservative branch of the judicial system started a campaign to criminalize the workers' party, with accusations and charges of unbridled corruption, without electoral success. Given the temporary weakness of the oligarchy, the *coup*-mongering corporate media presented itself as the real

political opposition in Brazil<sup>11</sup>.

An intriguing question must be raised. How these very same structural political and economic changes from the 1980s and 1990s, that caused the oligarchy to rule and the financial sector to thrive, but the rest of the economy to suffer, allowed the partial success of the governments of Lula and Dilma? The restricted democratic Constitution allowed a minimum social democratic program, but this required a coalition with the oligarchy, and Lula's vice-president was an industrial capitalist and he appointed an international banker for the head of the Central Bank. Lula was able to circumvent the monetary policy constraints of inflation targets by fostering industrial capital in a typical social democratic movement. This was accomplished by means of targeted credit policies, with the stock of credit as a share of GDP growing very fast (Teixeira e Costa Pinto 2012).

However, the high interest rates sustained a strong currency and created problems for the industrial bourgeoisie, although it kept the high financial revenues of financialization. At the same time, fiscal austerity added to a relatively lower level of realization of the surplus, but Lula was also able to promote redistributive policies with tax transfers that reduced poverty and stimulated the consumption and the internal market. Credit was also instrumental in getting a higher consumption pattern and a higher growth rate. Exports were stimulated by the growth of China and the South-South cooperation, with a new assertive diplomacy. Since investment dropped substantially as share of output under the neoliberal regime, it could resume rapidly under Lula, but without changing the backward economic structure. State-owned Petrobras, a pariah under Cardoso, not privatized for lack of time, also boosted capital accumulation. Minimum wages were increased rapidly, and with it the other wages, reducing the income concentration. Labor shares of income increased and, given a declining rate of exploitation, may have caused a profit squeeze that took capital accumulation down, as shown above.

Historically, higher wages have led to a higher composition of capital in advanced capitalist countries (Marquetti 2004). In less developed countries, on the other hand, higher wages have led to political authoritarianism and maybe violence to revert it politically. This is a significant part of the explanation for the recent *coup d'Etat* in Brazil. Wages and salaries increased fast, with support from the central government, outstripping productivity changes and, as a consequence, reduced the profit share of income. As stated before,

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11 The President of the Brazilian National Association of Newspapers and an employee of coup-monger newspaper Folha de São Paulo, Maria Judith Brito, declared in 2010 that the media was the major real opposition to progressive governments, since the right-wing political parties were too fragile (Albuquerque 2016)

according to Marx, crises usually are preceded by rising wages and benefits to workers. In Brazil indeed there was an unprecedented improvement in workers' pay before the start of the twin crises. As shown above, higher wages, coupled with the decline in the rate of exploitation of labor, caused a profit squeeze and a political as well as economic interruption of capital accumulation as a way to reduce the legitimacy of the government and get the oligarchy fully back in power. When the strike failed politically, the recession started destroying capital, a political crisis was concocted, precipitating the need for a political *coup d'Etat*.

### **Even Deeper or Longer-Run Structural Problems and the Contradictions of the Neoliberal Vendetta**

The neoliberal restoration proposed by the oligarchy after the *coup* is not likely to solve the structural economic problems that neoliberalism caused in the first place. Regarding the external trade, Constantinescu et al. (2015) argue that the slowdown in world trade and income is structural, not cyclical. If it is true, it should not be reverted soon, creating problems for the Brazilian exporting industrial bourgeoisie. Regarding the dynamics of income in advanced capitalist countries, stagnation has been considered the new normal, and is not likely to grow in the rhythm necessary to boost underdeveloped economies. Remaining state-owned assets will not generate a huge amount of fiscal revenues when privatized, but the ensuing outflows of foreign income will cause additional problems for the balance of payments and for the funding necessary for potential domestic capital accumulation. High unemployment and lower wages will subdue inflation, but high interest rates will continue to feed financial accumulation and restrict industrial capital accumulation and output growth. Another possible way seen by bourgeoisie is to slash labor costs and taxes, reducing the state's ability to raise funds to implement pro-labor policies. Additionally, freezing state expenditures on health and education will cause poverty levels to increase, and at first will represent a major drag on the realization of potential profits generated by crushing workers' compensation (wages and benefits) – a continuous under-consumption replacing the profit squeeze as the most important driver of the crisis. On the other hand, the Brazilian state has been very generous in terms of subsidies and credit to cheapen capitalist production. Actually, this is one of the reasons for capitals originated in Brazil not being wiped out by foreign competition. Fiscal austerity, if implemented as planned by the market fascism (a term coined by Samuelson to explain neoliberalism in Chile after the *coup d'Etat* in 1973 – and the comparison here is appropriate for the old-new times) of the

new economic policymakers, will represent a nail in the coffin of the Brazilian industrial bourgeoisie.

The single most important issue facing the neoliberal oligarchy, therefore, is how to resume industrial capital accumulation after the *coup*. It should be emphasized that, restoring capital accumulation for the big Brazilian and foreign bourgeoisie appropriating profits in Brazil is not about accumulating industrial capital *per se*, but improving capital accumulation so as to compete with other foreign capitals seeking profits in world markets. That is, Brazilian capitalism has to catch up with the most dynamic capitalist trends if it is to survive without State support. This requires a focus on innovation that is beyond Brazilian bourgeoisie. This is its greatest and deepest constraint. For instance, the Bloomberg innovation index, a composite index made up of seven items (R&D intensity, manufacturing value-added, productivity, high-tech density, tertiary efficiency, researcher concentration, and patent activity) ranks the most innovative countries since 2013<sup>12</sup>. This means that overall innovative activity is not a feature of Brazilian bourgeoisie. Of course, it would be necessary to account for the role of government, mainly public universities and federal and state funding agencies, in all the major components of the index. It is worth mentioning here two federal programs of incentives for fostering innovation in Brazil under Lula (PITCE) and Dilma (PBM). If we exclude the government, directly and indirectly, it is doubtful if the capitalist class, including the increasingly internationalized fractions, could still change the overall picture and be ranked among the top 100.

The consequence of this failure, regarding the industrial capital, is a long-term transition from manufacturing, developed to be the center of capital accumulation in Brazil over a time span of more than 50 years, to agriculture (Petras 2013). The manufacturing fraction of industrial capital has been stagnating since the 1980s, and the hiccup allowed under the social-de-

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12 In 2012 Bloomberg published the Innovation Quotient, evaluating 20 countries for 10 years. Of course, Brazil was not ranked among them. The global rank with 50 countries was first calculated in 2013, but even if it was stretched far back in history the result would likely not have been different. Brazil was not among the top 50 in 2013, despite the fact that the number of countries ranked more than doubled. In 2014 the company published the top 30 countries. Brazil was not among them. In 2015, the index covered the top 50 again, and Brazil ranked 47<sup>th</sup>. It dropped from the rank in 2016. The frequent changes in the ranking of the countries suggest that the measurement is volatile. There are other problems. To mention only two, manufacturing value added per capita is a measure of productivity. Also, the higher the expenditure on R&D, the higher the value added. Nonetheless, it is clear that the Brazilian bourgeoisie is not able, despite all the government support to boost their profits, to innovate and accumulate capital according to the current stage of global capitalism. Besides that, to quote another *The Economist* piece, "(...)a big reason for Brazilian firms' underperformance [in the rank of the best global companies] is less well rehearsed: poor management." (*The Economist* 2015b).

mocratic-clientelistic accord was not enough to bring it back to the center of capitalist accumulation. This movement is made clear by the reprimarization of the export basket, since exports are the first to suffer competition from more able bourgeoisie around the world. The agricultural fraction is unable to foster technological advance by definition (contrary to what is argued by many agricultural oligarchs, it can use technology intensively, but not produce technology like laboratories and universities in the tertiary sector or the machine and equipment sector in manufacture). If the agricultural fraction of industrial capital gets the upper hand in the new power bloc after the *coup*, and there is no sustainable technical and economic linkages between manufacturing and agribusiness deepening the agro-industrial complex created by the State after the 1964 coup, the former is likely to continue its long process of decay.

This longer-term structural incapacity of the Brazilian industrial bourgeoisie to lead a process of capitalist development based on accumulation geared to innovation, invention, and diffusion of technical progress has long been known to scholars. For instance, the branch of the dependence theory developed by Enzo Falletto and Fernando Henrique “Assomons le pauvres” Cardoso in the 1960s considered this a major feature of dependent and associated development in Latin America. In their view the process of capitalist development could be led only by the international capitalists, with the native bourgeoisie being at most a minor partner. Another branch of the dependency theory, associated with Andre Gunder Frank, provided the best definition for the Brazilian bourgeoisie: Lumpenbourgeoisie (Frank 1972). Jorge Bernstein (2016) provides a more recent account of the decadence of lumpenbourgeoisie in Latin America. All interventionist proposals to develop capitalism in Brazil, and the same is true for their neoliberal counterparts, assume a universally able bourgeoisie throughout the capitalist system, a money-bag that, by seeking a larger quantity of money, tends to cause the contents of the bag to spillover to society in the form of productivity gains, employment, and technical progress, given the proper (technical or scientific) political conditions. This has not been the case in underdeveloped countries, with a few exceptions that are treated ideologically as the rule. This has clearly not been the case in Brazil. The degree of underdevelopment of Brazilian bourgeoisie points to a Sisyphus effort on the part of the policymakers and developmental intellectuals in developing capitalism in Brazil as an emulation of the advanced stage of world capitalism.

A remarkable structural feature of the Brazilian lumpenbourgeoisie is its permanent status as comprador (Amin 2011 explains the concept). Tax subsidies and credit may not translate into increased capital accumulation in Brazil, but it is very likely to boost the housing market in Miami-Dade.

The Brazilian lumpenbourgeoisie, or at least part of it, is usually amongst the top buyers of real estate in Miami, Florida. In a survey conducted by the Miami Realtors Association (MRA 2016), Brazil ranks second in the 2015 survey (with 12% of all sales, against 13% of Venezuela), after being third in the 2014 survey (usually being ranked between second and third from 2011 on). Of course, it is not only the bourgeoisie, since what it produces is only lumpen-development. Their acolytes in the state bureaucracy are equally eager to sound “sophisticated” and be part of the international jet set by buying property in Miami-Dade. A famous former Brazilian justice used a fiscal haven to buy property in Florida and avoid collecting taxes that pay for the extremely high salaries of judges in Brazil. This is not only about real estate, either. According to a McKinsey & company report (McKinsey 2014, 2):

Some 80 percent of all Brazil’s luxury goods spending takes place abroad while wealthy Brazilians are travelling, mostly to destinations in the U.S. and Europe. Brazilians spend more on luxury in the U.S. than visitors from any other nation

This structural feature cannot be fully discussed here due to space constraints. Cattani (2013) provides a detailed research about the wealthy in Brazil, whereas Cuadros (2016) deals with the question from a journalistic perspective.

Regarding the structural institutional features, the system of political parties currently in place was inherited from the corporate-military dictatorship and is completely anti-democratic and therefore anti-labor and anti-popular. As claimed before, capitalists interests represented by financial contributions to the political campaigns (buying politicians wholesale) require that the results are always in their favor, it does not matter which political coalition wins the elections. The appearance of workers’ party and the institutions of organized labor in urban as well as in rural areas represented a major threat to their ruling. Besides that, Brazilian oligarchies and the bourgeoisie are by their very nature authoritarian, supporting *coups d’Etat* whenever their money cannot buy the politicians that will deliver the best results for their interests. Actually, some capitalists even tortured political prisoners during the 1964-1985 dictatorship.

This anti-democratic feature is combined with a neo-fascist segment of the high middle classes who think that they are part of the oligarchical bourgeoisie, and the low middle classes who think that they belong to the high middle class. This phenomenon was studied by Burris (1986). Of course, the middle class tends to be heterogeneous and complex, and the mistakes of misinterpretation emphasized by Orwell (1968) must be born on mind. Feld-

man (2008) provides a profile of neo-fascists that is consistent with the behavior seen in Brazil, mainly the nationalist bias (wearing the Brazilian national team jerseys to protest against the ‘corruption’ - that is, against the poor). So, this fraction is very well represented in the chamber of representatives and in the Senate. The grotesque spectacle in the lower chamber on March 17<sup>th</sup>, with the pentecostal representatives screaming and dancing, invoking god and family to deliver the first blow to the restricted democracy, corresponds to the neo-fascist segment of the middle classes. The reborn neo-fascism remained anesthetized with the end of the corporate-military *coup* and the rise of the organized left. But the limited social transformations allowed by the social democratic compact awoke them. The increased number of students from working class background in the universities created a stir. The neo-fascist middle class feels that this has challenged their place in society, because universities are not considered, in their world view, appropriate institutions for the working class and the working poor. The same is true about airports and air travels, with a bulk increase in the number of first-time working class fliers. Workers and the poor are not supposed to travel by plane. Actually, in their neo-fascist view, they are not supposed to travel at all. They talk about meritocracy and effort all the time, but they do not approve of competition. They have a cast-based society in their mindsets. Their violent reactions against change reflects what Gordon and Busseri (2012) found to be an association between conservative preferences for prejudice and lower cognitive ability.

In sum, this structural political elements were combined into an inversion of what Christopher Lasch (1996) called ‘The revolt of the elites’ regarding the US. Lasch lamented the rise of technocracy and the lack of religion and spirituality. In Brazil, the revolt of the elites reflect a lack of technical progress and technological development, opening room for religious zealotry. The longer-term structural trend is therefore essentially about economic and political backwardness.

## Conclusion

The Brazilian twin crises represent, first, a cyclical political and economic crises of Brazilian capitalism, with a profit squeeze, underconsumption, and an accumulation strike by capitalists, with elements of misguided neoliberal policies targeted at revamping profit expectations and capital accumulation, aiming at boosting commodity production and maintaining employment levels. The cyclical economic instability led the authoritarian oligarchy to launch a major effort to overthrow an already restricted democracy, bringing about a *coup d’Etat*. Once accomplished, the oligarchical restoration



has been leading Brazil to a re-encounter with the failed full-neoliberal policies of the 1990s and early 2000s. These processes reflect growing real wages and declining exploitation, causing a profit squeeze. Continuing austerity policies contributed to underconsumption. Coupled with attempts to reduce interest rates and parasitic financialized gains, it led to a political and economic backlash. Yet, the crises represent also structural economic and political crises of underdeveloped Brazilian capitalism, with an industrial bourgeoisie that is unable to lead a process of capitalist development based on innovation-inducing capital accumulation. Coupled with the structural authoritarian feature of the Brazilian bourgeoisie, a backward state bureaucracy, a neo-fascist middle class, and a *coup*-mongering and anti-labor media, the crises are actually a collection of multiple structural trends coupled with cyclical economic and political crises.

The problem with Brazilian capitalism is its ruling class and the illusion that it can be a catalyst to socioeconomic development. The Brazilian lumpen-bourgeoisie has historically been pushed to produce and to invest only when significant support from foreign capitalists and mainly from the central state took place. On its own, the Brazilian bourgeoisie cannot survive world capitalist competition. Policies targeted at increasing the accumulation of industrial (productive, including agribusiness) capital is a waste of social resources and may only in very narrow circumstances cause a period of rapid growth, like the one between 2004 and 2012 under Lula da Silva and Dilma Rousseff. And sole under the narrowest of the circumstances, like the ones existing under the social-democratic-clientelistic accord, the unlikely growth will translate into better living standards for the majority of the population.

Thus, the current twin crises are the result of an oligarchical bourgeoisie eager to maintain the country's income, wealth and political rule concentrated and not shared. Since aggregate income and surplus fall during cyclical crises, and interest payments can never be challenged in Brazil, an increased appropriation of a falling surplus by the manufacturing fraction of the bourgeoisie can be obtained only with an even larger drop in the incomes of workers and the assistance for the poor. Given that the capitalist world market right now is not able to provide additional room for the production and circulation of surplus at the current juncture, the result is a recession that deepens, without the possibility of a structural recovery. The situation is worsened by a lumpen-bourgeoisie, structurally unable to invest and to innovate on its own, who tries circumscribe the effects of the crises to the majority of the population, gearing the economic and political systems to attend their primitive interests, to attack labor and social rights by imposing cutbacks on social spending and by means of channeling the meager state funds crushed

by neoliberal policies, to its pockets, either directly with subsidies or indirectly via tax evasion.

The political crisis that led to the *coup d'Etat* is the consequence of such an aggressive behavior of the lumpen-bourgeoisie against workers, the poor, and against democracy. Accepting some democracy, no matter how minimum it is, among the ruling class has been the exception, not only in Brazil, but this country is an example of a lumpen-bourgeoisie without any respect for the rule of the law, unless the laws are only in their favor and not universally enforced. There is no escape from the old statement: Lumpen-bourgeoisie, lumpen-development, lumpen-institutions. The twin crises are a reflex of that complex underdevelopment. Elected Turkish President Recep Tayyip Erdogan affirmed recently, regarding the failed attempt at an old-fashioned *coup d'Etat* in his country, that Turkey is not a Latin American country. Brazil, unfortunately, *mutatis mutandis*, and as a prime example of a second-rate Banana Republic, cannot claim the same.

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#### **ABSTRACT**

This essay provides a critical interpretation of the origins of the current combined economic and political crises in Brazil. It is argued that the twin crises reflect both cyclical and structural elements typical of capitalist economies, yet with specific elements reflecting the underdeveloped status of Brazil, its oligarchical bourgeoisie, and its history.

#### **KEYWORDS**

Brazilian Capitalism; Economic Crisis; Political Crisis.

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