The Political Economy of Distribution in Brazil and China in the 2000's

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Abstract

This article contributes the distributional debate in developing countries by shedding light into one key locus for distributional determination: the state and the struggles within. We do so by comparing the nexus between private capitalists understood as a class in itself, the state, and the accumulation pattern that predominates in the first decade of the 21st century in Brazil and China. Through a comparative political economy perspective, we aim at identifying and comparing the political class struggle dynamics and their effect into shaping the accumulation pattern and the distributional outcome in the first decade of the millennium in the two largest developing countries – in a so-called "socialist market economy" and in a pheriferical capitalism governed by the Worker's Party. We argue that the understanding of inequalities, their causes and the set of policies implemented to mitigate them must include a strong characterization of the political economy around the state. Which leading social forces have been hegemonic in forging the accumulation pattern and its distributional outcomes in Brazil and China over the period? What is the institutionalized relationship between state and capitalists in these two countries? And to which extend do their role in shaping state's decisions and policy making differ or resemble each other? These are the questions we aim at shedding light on.

Keywords: Political Economy; Distributional; State; Struggles; China; Brazil

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1. Introduction

As academic and policy debates over income and wealth distribution boom worldwide, Brazil and China are, for different reasons, the two most discussed cases among developing countries. While income inequalities rose rapidly in China during the 2000's, thus aligned with major trends in the developed world, Brazil and most Latin American countries experienced a relevant decline. Although Brazilian levels have been historically sensitively higher, both countries stand nowadays among some of the most unequal societies, with China's official Gini coefficient for income inequality at 0.469 in 2014 and Brazil's at 0.522 in 2013.

The sources of income and wealth inequalities are always multidimensional, multi-institutional and multi-causal. Distribution is shaped by social, political and economic structural forces such as social and economic institutions; labour market regulation; labour repression; external sector conditions; historical institutional legacies; macroeconomic and other state policies; among so many other factors. As James Galbraith (2010) once summarized, distribution in the developing world depends on which ways the whole process of structural change is carried out (and under which conditions it isn't). Or within a classical political economy mind-set, the levels of inequalities are defined by the ways the distributional conflict inherent to capitalism[2] really unfolds.

This article contributes the distributional debate in developing countries by shedding light into one key locus for distributional determination: the state and the struggles within. We do so by comparing the nexus between private capitalists understood as a class in itself, the state, and the accumulation pattern that predominates in the first decade of the 21st century in Brazil and China. Through a comparative political economy perspective, we aim at identifying and comparing the political class struggle dynamics and their effect into shaping the accumulation pattern and the distributional outcome in the first decade of the millennium in the two largest developing countries – in a so-called "socialist market economy" and in a pheriferical capitalism governed by the Worker's Party, an arguably left-wing party. We argue that

[2] We do not enter the debate over China's accumulation regime (to which extend it is to be fully characterized as state capitalism or socialism with specific characteristics). For our argument, it is sufficient to admit that in the process of building up of a "well-off society", "capitalist elements" and noncommunist ideas have been deeply integrated into the capital accumulation process, opening the possibility for creating a "class power" that may be separate from "state power".

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In what follows, we first present the general picture of Brazil's and China's distributive performance and associated policies during the first decade of the new millennium. We then set up our theoretical framework for tracing the nexus between the state, capital accumulation, classes and the distributional outcome. And then apply it to Brazilian and Chinese cases in the two subsequent sections. Our main conclusions are summarized in the final section.

2. The distributive narrative in Brazil and China in the 2000's

After long being perceived as almost a natural feature of Brazilian landscape, inequalities were a central target for public policies from the Worker's Party administration. Brazilian distributive picture was marked by falling income inequality due to successful public policies that coupled labour market improvements with social protection schemes in the 2000's. Such policies have included minimum wage increases above inflation, formal labour market expansion, and a sound minimum income scheme[3].

Recently, some Brazilian researchers have started contesting the reported drop in inequalities. They argue that if the information on the income performance of the top 1% is correctly computed, using data from tax sources and not only household surveys, inequality in Brazil was stable and did not decline from 2006-2012 (MEDEIROS & SOUZA & CASTRO, 2014). Echoing Atkinson and Piketty (2010) point, they argue that it is thus crucial to detail the dynamics of the top 1% richest in the society – a stake that takes no less than one fourth of Brazilian national income. And that is highly financialized, as in several other countries in the world. As we will further argue, over the past decade and thus during all Worker's Party administrations, the financial-

[3] See, for example, Kakwani & Neri & Son (2010).

banking class fraction kept a hegemonic position in the power bloc within the State and was thus capable of forging a macroeconomic regime aligned with its distributive interests (TEIXEIRA & PINTO, 2012).

China, for its turn, rapidly "retreated from equality", to use Riskin's expression[4], and settled into an uneven growth path marked by both very fast poverty reduction but also strong urban-rural divide. When decomposing inequalities, the China Household Income Project (CHIP) estimated that the difference of rural and urban incomes responded alone to 54% of national inequalities[5]. The CPC has also allegedly been trying to address such imbalance through relevant policies such as the abolishment of rural taxes and fees, rural infrastructure development and public investment in the West provinces, a basic pension insurance program for rural areas, and the rural cooperative medical insurance program. They are all part of the "harmonious society" (*hexie shehui*) equitable growth plan outlined by the former Chinese administration. They were complemented by active policies in the urban areas intended to increase wages and set up a minimum social protection scheme. Results, so far, have been modest, and only started to suggest some distributional improvements by the end of the decade we are analysing. The official urban-rural income gap, for instance, fell from the historical peak of 3.3 times in 2009 to 3.1 times in 2012.

Contrary to Brazil and to most of developed countries, Chinese elite and richest top 1% is less financialized. They did rely heavily on cheap credit offered by the banking sector in order to dig their first bucket of gold during the privatization of once collective enterprises (offered at already very low prices). And they continued to rely on cheap credit during the real estate expansion and housing bubble, when several fortunes were built. But until very recently Chinese top 1% had not relied on banking or financial profits for the bulk of their income and wealth generation. This is a singular feature of one of the few major countries that systematically refuses to liberalize its financial system. Qualified as a "financial repression" by its liberal critics, the state-controlled system has been characterized by strong capital controls, restrictions on the entrance of foreign players, state control over the major banks, and interest rates strongly based on the productive sector investment needs (VERMEIREN & DIERCKX, 2012).

[4] Riskin & Zhao & Li (2001).
[5] For details, see Li & Sato & Sicular (2013).

In both Brazil and China, policy intervention packages that aimed at reducing inequalities and that did resemble themselves, notably what refers to active minimum wage policies, extension of pension funds and broadening of social protection schemes, where accompanied by accumulation patterns that favoured wealth and income concentration at the top richest 1%. This is what we will detail after the theoretical considerations that follow.

3. State, capital accumulation, classes and distribution: tracing the nexus

As seminal political economists and long duration sociologists have effusively argued, the state is an intrinsic social institution embedded in its historical movement[6]. The generalized opposition of states (political interests) vs. markets (economic interests) propelled by neoliberal thinking simply does not find historical evidence in industrial societies. Capitalist accumulation (not to mention socialist ones) could have never taken place without the political power of centralized states as capital grows hand in hand with state power accumulation. Even in developed countries, where the state generally reduced its direct involvement in the organization of production and in the appropriation of surpluses, it remained as the general organizer of capital accumulation and of the capitalist order, having as its main instruments: 1) the monopoly of the use of violence to guarantee and protect private property; 2) the formulation and imposition of laws that regulate the labour force; 3) the management of the currency, tax system, and public debt through monetary and fiscal policies, trying to assure some control over the distributive conflict and some previsibility over capital returns (BRUNHOFF, 1979; PANITCH & GINDIN, 2005; CARDOSO JR & PINTO & P LINHARES, 2010).

From a classical political economy perspective, the so-called distributive question is the result of both economic class struggles (expressed through corporative power and wage disputes) and of political class struggles, which has the state as a major locus for conflicts. Because of the range of their impacts and because of the structuring capacity of public policy, states are a major locus for distributional conflicts and for shaping distributional outcomes. Our analysis of the state's role in capitalist accumulation concentrates on the understanding of the ways that classes and fractions exert power in their attempts to maintain or increase their shares of income and wealth and in influencing public policies. This approach means looking both at "to whom" the

[6] For instance, Marx (1999 [1852]); Polanyi (2001 [1944]); Braudel (1992 [1979]); Elias (2000 [1939]).

political structure works for and "how". We employ a neo-gramscian perspective brought by Poulantzas (1978) and Codato & Perissinotto (2001), according to which Marx's works do address both the functional and institutional dimensions of the state in two analytical levels: i) a formal-abstract level, characterized by the general theory on the capitalist mode of production (the class that is favoured is thus the capitalist class); ii) and in the concrete-real level, in which there is a possibility of separation between "state power" and "class power" (showing how power struggles actually take place).

Identifying what is the institutionalized relationship between the state and private capital is thus key to understanding the effectiveness of the state intervention in the economy and the direction that structural change takes place in developing countries (KOHLI, 2004). For reaching a more detailed institutional characterization of state functioning in its operational level, we also employ the so-called "state-in-society" approach formulated by Migdal, Kohli and Shue (1994) and Migdal (2004), which attempts to de-construct the neo-institutionalist argument (Weberian in its origin) that the state is an autonomous organization with some type of extraordinary means to dominate society and detached from class struggles[7]. Rather, states are not only historically constructed but also embedded in their class dynamics and responsible for defining how capital accumulation and structural transformation will be carried out in developing countries.

Brazilian and Chinese states are extremely different in their relationship with private capitalist, in dealing with class struggles and in their capacity to promote capital accumulation. The Brazilian case fits Kohli's (2004, p. 222) typology of fragmented-multiclass states, in which "power resources are often dissipated and there is an upper and down limit on how rapidly they can propel industrialization". The Brazilian state has a restricted capacity of decision and initiative once facing the fractions within the power bloc[8], but can, in certain historical conditions, be influenced by external segments (COTADO & PERISSINOTO, 2001). In these cases, the state does not

[7] For the neo-institutionalist literature that argues for the state as an autonomous entity, see, for example, Skocpol (1985).

[8] Poulantzas (1968) thus defined the power bloc: a contradictory unity among distinct classes or class fractions based on their interior hegemony in their relations with the capitalist state. Thus, the concept of the power bloc is tied to the political level in that it overlaps the class's political practices, a status which reflects a given set of circumstances – one involving mediation and the levels of class struggles within a given historical context. At the concrete-real level, the power bloc ends up playing a role equivalent to the concept of the state. It is also important to point out that this restricted hegemony of one of the fractions within the power bloc is determined by the fraction's ability to work for the economic, political, and ideological interests of the other fractions and classes within the bloc.

abandon its condition of being dominated by a certain power bloc, but may be more or less permeable to certain demands from segments outside the power bloc.

Given this wide array of disputes and interests, policies reflect “extremely contradictory processes involving measures, countermeasures, blocks, and scaled cuts” (POULANTZAS, 1978). If we would only consider state operations at the concrete-real level, we would conclude that public policies and their results are extremely chaotic and contradictory. However, after combining the power bloc with the idea of capital in general, one can conclude that the results of the policies are the manifestations of the hegemony of the power bloc, which lead to a certain pattern of capitalist accumulation and a higher degree of hegemonic fractioning (OLIVEIRA, 2004; PINTO, 2010).

In the Brazilian case, the understanding of the different forms of domination that take place within the locus of the political class struggles (that is, into the state) must go beyond the binary perspective dominant vs. dominated segments, once a social formation implies the existence of various dominant class fractions (power bloc) and dominated classes that are in constant struggle. The state must be analysed in a relational perspective, through the combination of two axes: relative autonomy the state vs. subordination to certain interests, which, for their turn, are determined by conjunctures (OLIVEIRA, 2004; PINTO, 2010).

Is such relationship between the state, social classes and the accumulation pattern also valid for the Chinese political system, in which the state is controlled by the Communist Party of China (CPC) and economic elites do not have the same capacity to form political power blocs? Class struggles, capitalist fractions and centres of power are clearly present in China’s “market socialism”. Nevertheless, huge differences in terms of the political system, property rights and the legacies from the Maoist era imply that the Chinese state has not been the *locus* of political class struggles in the same way as in Brazil.

For the Chinese post-reform case, Kohli’s (2004) typology of cohesive-capitalist states is very useful. Contrary to fragmented multiclass states, in which public authority tends to rest on a broader class alliance, cohesive-capitalist states have typically carved clear links with capitalist producer elites in their pursuit for rapid growth. In the cohesive type, the state’s near-exclusive commitment to high growth perfectly matched the profit-maximizing needs of private entrepreneurs. An important corollary of this political engagement is the tight control over labour during the process of rapid capital accumulation, suppressing wages and guaranteeing a “flexible” and disciplined labour.

"A marriage of repression and profits, aimed at economic growth in the name of the nation" (KOHLI, 2004, P. 13).

In the socialism with Chinese characteristics, capitalist fractions have emerged during the process of rapid capital accumulation under the strict guidance from the party-state, which arguably carries a long-term national accumulation strategy. The Chinese party-state has engaged in both creating and co-opting capitalist class fractions, positioning itself as the main source of the reproductive process. This is only possible due to the huge power that the CPC has had over capitalist fractions, which were only stablished under state tutelage and guidance. Although there is no evident sign that the Chinese party-state will lose its status as the main source of the reproductive process in the short run, a much more diversified and fragmented capitalist class starts to pose question marks over the party-state capacity to keep a cohesive-capitalist accumulation going on.

As we will further show, different fractions within the capitalist class were instrumental to the growth pattern as they operationalized the party's strategy for rapid capital accumulation. These "red capitalists", to use Dickson's (2008) expression, were not in search for autonomy but rather closely "embedded" within the Party apparatus, being well-integrated into the political system and having no interest in challenging the party's rule during the 2000's (DICKSON , 2008; MCNALLY & T WRIGHT , 2010). It was a case of a symbiosis between communist leaders and capitalist business owners.

4. The hegemony of the banking-finance fraction in Brazilian capitalism

In the first decade the millennium, important changes took place in the flux and the stock of wealth of the social fractions that comprise the Brazilian power block because of the very economic dynamics and macroeconomic policy. Such policies expressed the contradictory movements between different classes of the power block and the hegemonic interests of the national and international banking-finance fraction. The central variable synthetizing this process was the interest rate, which simultaneously condensates:

1) The guarantee of high rates of profitability of the economic groups of the banking-finance fraction, allowing it to maintain its wealth and thus sustaining its economic power within the economic class struggle.
2) The political power of the banking-finance fraction in the centre of the political class struggle is manifested in the uncontested power of the Brazilian Central Bank (BCB) to manage monetary policy. The BCB, commanded by direct and indirect representatives of this fraction, is the "centre of the power" in the Brazilian state. The operational independence of the BCB is a major expression of the political power of these segments – despite of the arguments that lean to the depolitization of the debate, or claim that policies are technical solutions neutrally prescribed. It is evident that such arguments are fallacious, as the policies adopted by the BCB effectively creates winners and losers. Almost always the banking-finance fraction wins in this game.
3) The possibility of gains for other fractions of power block that have followed the process of financialization (dynamics of fictitious capital) as an alternative for accumulation, as well as other segments outside the power block that get revenue through the market of government bonds, stocks etc.
4) The ideological power of the banking-finance fraction that has succeeded to legitimize, in an uncontested manner for a significant part of the society, the idea that the fight against inflation should take place regardless of its costs.

The debate over the level of the interest rates (and its effects on the exchange rates) in Brazil cannot be narrowly discussed within economics and accompanying technical solutions, since interest rate is a central element in terms of the conflicts between different fractions in the power block as well as of the hegemony of the grand bourgeois of national and international banking-finance fraction. Increases in the interest rates provoke a valorisation of the real (Brazilian currency), which, other things being equal, implies cheaper imported products and reduction of the revenue of the exporters. Until mid-2000's, this process provoked a reduction of economic and political power of the fraction comprised by the Brazilian industrial bourgeois producing to domestic markets because of the increased competition due to the lower prices of imported goods.

For the grand bourgeois of industrial commodities and agrarian exporting bourgeois (agribusiness bourgeois) the valorisation of the real could also have reduced their revenues and consequently, their power. This did not take place. On the contrary, the valorisation of the currency increased the economic and political power of the industrial commodities bourgeois and maintained the economic and political power of the agribusiness bourgeois.

This can be explained by the extraordinary dynamics of the sino-american axis, making that the positive effects of the increased quantity of the Brazilian exports were much bigger that the negative impacts of the increase of the exchange rates. While there is an underlying conflict between the fractions of grand exporting bourgeois and the grand banking-finance bourgeois with regard to the management of the interest and exchange rates, the overall effects of the expansion Brazilian exports to the sino-american axis strongly reduced this conflict. As far as China keeps its catching up process, the reverberations on the Brazilian exports should keep welding of the interests of these two fractions.

These international dynamics provoked in the first decade of the millennium a relative increase of the power of the grand exporting bourgeois of commodities. Between 1995 and 2007, the net real profit of the main economic groups within such segment increased 1705.9% (from R$ 2.0 billion to R$ 36.1 billion), raising their share in the total net profit from 30.7% in 1995 to 44.0% in 2007 (from a selection of 300 main economic groups of the country, which in aggregate made up some 40% of the wealth created annually in average in Brazil). In 2007, the share of this sector was the biggest in Brazilian economy, as it passed that of the banking-finance segment, which had a share of 33.5% in the total profits of the country. The strong increase in the share of the capital intensive industrial commodity (IC) was strongly influence by the performance of two giants: Vale, in the mining sector, and Petrobras, in the oil sector. Their combined profit represented over 60% of total net profits in IC in Brazil (PINTO, 2010; TEIXEIRA & PINTO, 2012)

It is not an accident that the segments that most increased their economic and political power during the Lula's government were the grand agribusiness bourgeois and especially the grand industrial commodity bourgeois - segments that most contributed to Lula's electoral campaign in 2006. According to Figueiras and Gonçalves (2007), the share of campaign donations of the exporting segment increased from 2.9% in 2002 to

10.4% in 2006, representing an increase of 677% (from R$ 1.61 billion in 2002 to R$ 12.51 billion in 2006).

Since 2006, with economic growth driven also by internal dynamics, it is possible to observe a strengthening of the national industrial and commercial segments that ended up having major influence on the political core of Brazilian state. Until the international crisis in 2008, the changes in the relative position of the power block did not translate into a displacement in the hegemony of the grand banking-finance bourgeois, but instead a reduction in its relative power.

The maintenance of the hegemony of the banking-finance segment during the Lula's government can be illustrated by the increase of its stock of wealth and of its net profits, which latter rose from 15.5% in 2003 to 25.1% in 2007. Such increase was a result of high interest rates as well as of elevated banking spreads (PINTO, 2010) The economic power of the banking-finance segment was carried out through macroeconomic policy, which expressed its political power within the political apparatus of the state, and was materialized in the operational independence of the Central Bank, which is the main "centre of power" in the Brazilian state apparatus.

Therefore the internal (economic policies) and external (the effects of the sino-american axis) conditions, within economic and political class struggles, are the cause and effect of the cooperative and conflicting dynamics of the class fractions in the Brazilian power block in the first decade of the millennium.

The impacts of these two conditions on the power block are relatively clear. The impacts of these elements under the Lula's government on the segments outside the power block (the dominated segments), for their part, are not that evident. There is an interesting debate on this theme in Brazilian literature. Below, we highlight the interpretation of Singer (SINGER, 2009) on what he calls "lulism".

For Singer, the tripod formed by Bolsa Família, increases in minimum wages and expansion of credit, which reduced the misery in Brazil, goes much beyond a simple aid for the poor. This is because this tripod and the macroeconomic policy regime constitute a new platform that articulates right-wing values (of maintaining the order and combatting the inflation) and left-wing values (of redistributive policies) outlining a new political trajectory of a certain class fraction, that of the subproletariat[9].

[9] "The subproletarians are those who offer their labour force in the market without finding someone willing to buy it for a price that ensures its reproduction under normal conditions. It falls into this

According to this interpretation, Lula created an ideological connection with the poorest and became a representative of this fraction, something materialized in the elections after 2006.

The analysis of Singer is rich in identifying the interests of the dominated segment, especially those of the subproletariat, by observing the direct links between class fractions and political parties. However, he commits a serious mistake in not considering that there are discrepancies between a particular class or fraction in the power block and the political system based on parties. Such a mistake leads to believe that the Brazilian electoral results were a result of the division between the poor and the rich. It is at least strange to believe in such division if we observe the growth of the amount donated in the elections of 2002 and 2006 by the sectors of finance (from R$ 6.1 billion to R$ 12.7 billion), civil construction (from R$ 2.5 billion to R$ 18 billion) and raw material exporting industry and the commodity industry (from R$ 1.6 billion to R$ 12.5 billion) for the electoral campaign of Lula (FILGUEIRAS & GONÇALVES, 2007).

Because Singer neglects to analyse the effects of the politics of the Lula's government on the dominant sectors, his analysis is, out of necessity, one-sided resulting in incorrect conclusions with regard even to the poorest segments. Even if there was a direct link between Lula and the subproletariat, promoted by the programs of direct income transference, increases of minimum wage and increase of waged masses and employment, such a link does not signify a political platform for the dominated fractions, but instead politics that legitimates the domination of the fractions by the power block by incorporating a part of the poorest in the capitalist consumption. This is manifested by the strong growth of the so-called class C and simultaneous reduction of the classes D and E, that is, the extreme poverty.

Such like the peasants class served to support the class of French Bonapartism in the mid-19th century, the Brazilian subproletariat has functioned as a "support class" in the political dimension for Lula's government – that, nevertheless, maintains the class domination of the power block. The difference between the current Brazilian subproletariat and the French peasants in the era of Bonaparte is that the former also obtained economic benefits beyond the ideological conviction that marked the relation between the French peasants and their government.

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category: domestic workers, waged small direct producers and workers deprived of minimum conditions to participate in the class struggle" (SINGER, 2009, p. 98).

It seems plausible enough to say that the maintenance of the macroeconomic policies of Cardoso's government was not a factor that contributed to the electoral realignment of this group, but instead the realignment of the hegemonic elites in the power block. The support of the subproletariat to Lula's government, succeed through the alleviating redistributive policies, made possible the continuation of the domination of the banking-finance fraction in the power block. Even more, such politics completed the process of legitimation of the banking-finance fraction, incorporating the segments outside the power and forging an ample hegemony[10].

5. The party-state as a creator of capitalist fractions in China

The relationship between the state and the various fractions of the capitalist class assumes a very particular dynamics in China. Contrary to Brazil, where the state is a space of dispute for different fractions, in China the party-state assumes an active role in creating a capitalist class and several fractions within. Because such economic elite was non-existent in the pre-reform era, the state found enormous space of manoeuvre in stimulating and shaping the brand new top 1%. Such power was potentialized by the distinctive role of the CPC, which actually rules over the state and which is supposed to carry a long term social and political goal for the modernization, well-being and building up of a strong the nation (GUO, 2013).

In this section, we scrutinize what we identify as major mechanisms operated by the party-state (both at the central and local levels) for both rapid capital accumulation and for fostering the creation of different fractions within the capitalist class around the 2000's: 1. privatization associated with the restructuring of former state or collective assets, 2. land expropriation associated with the construction boom, and 3. "indigenous regulations" to promote the upgrading of Chinese brands into global value chains. We argue that each of these mechanisms were instrumental to the broader economic and growth strategy and, at the same time, allowed the creation of extraordinary gains for

[10] Similarly to that just presented, Oliveira & Braga & Rizek (2010) claimed that Lula's Brazil was living a "hegemony in reverse", because the domination has been exercised not anymore by the direct representatives of the elites in the power block, but by those who would be representatives of the workers. In other words, the workers or those who should be their representatives were governing, but according to the program of the elite. We think that the problem is more complex than this, because there were effective achievements attained by the poorest. There were and there are still tensions within the Worker's Party (PT) and the government itself. Singer puts it that there are tensions between the "two souls" of PT. A result in practice, however, was without doubt the legitimation of the hegemony of the banking-finance fraction in the power block.

selected people with close links to the party-state apparatus. They also embody distinctive social perceptions over the legality of the wealth that was amassed and point to some subtle differences in the relationship between the party-state and the class fractions here referred to.

i. Wealth derived from the privatization of state and collective assets

The privatization of former state and collective assets in the mid-1990's was a first pillar in consolidating the investment-led accumulation pattern that guaranteed Chinese high growth rates up to the beginning of the 2010's. Contrary to the former Soviet Union, where privatization led to a weakening of the state apparatus' capacity to coordinate production, Chinese privatization boosted the party-state's capacity in pulling growth at the same the authorities maintained a reasonable control over the emerging private sector. Chinese privatization was pursued only after a vibrant non-state sector had been established and allowed the party-state to exercise greater control over a vast pool of hidden privately-held capital (CAO , 2001; MCNALLY & WRIGHT, 2010).

The so-called "restructuring" of state-owned enterprises (SOEs) and town-village enterprises (TVEs) dramatically reduced the companies' social responsibilities (from health and education to life employment) and pushed the remaining SOEs to concentrate on pillar industries for an investment-led growth strategy, in sectors such as energy, steel, petrochemicals, telecommunication and banking. It also left a huge black hole in terms of social protection that only started to be addressed by the mid-2000 (HAAN , 2013). The national policy of "grasping the big and letting go of the small" left it clear that the objective was to change ownership control only over small and medium companies – an asset transfer that was operationalized by local party leaders. Later, the central government also allowed private capital to penetrate into pillar large SOEs once they were transformed into corporations with diversified equity ownership – limited liability and shareholding companies (LAU, 1999). In this case, the allocative role of the central government got much bigger.

Privatisation rapidly broadened the possibility of private ownership of small, medium and shareholding participation in large Chinese companies under very special conditions. It opened two shortcuts for capital accumulation: one through "insider privatisation", which gave former managers and their families control over small and medium companies because of their connections to local governments. And another through private capital equity injection into corporatized large SOEs due to special connections with the central administration.

In the case of small and medium companies, privatisation involved complicity among SOEs managers, private buyers and local party officials. In general, local authorities and former managers were granted considerable discretionary power to decide how industrial property should be handled (CHEN , 2006). There is no national survey giving a summary of the privatisation process, and researchers must rely on local case studies in order to infer a national picture. Li and Rozelle's research on 600 rural industries shows that 92% of the privatized firms were transferred to their managers (LI & ROZELLE, 2004). In several cases, former managers were also former village heads, county party secretary or have occupied some other local position of leadership, leaving it clear that new capitalist class was clearly created from within the party (MCNALLY & WRIGHT, 2010).

Privatisation also opened the possibility of private capital to enter the state-controlled shareholding enterprises. Investment funds and holding companies were established to allot shares to the public. The primary purpose of this revenue privatisation of larger SOEs was to raise capital rather than to transfer ownership rights. The holding companies were formed with staff from the supervisory departments from the state conglomerates, leaving discretionary power to the personnel to appoint their subsidiaries' directors. In some cases, an ex-bureaucrat is appointed as the managing director, sometimes to many companies concurrently (CAO , 2001).

Such transfer of former state asset was done under very special and favourable conditions. In several cases, these newly emerged capitalists gained access to the enterprise assets through favourable financing conditions and without being responsible for their debts and neither for guaranteeing employment to former workers (HONG, 2004). In several and more radical cases, managers did not invest a cent of their own money until privatization and still got access to favourable financing lines afterwards. In exchange, village and local officials received promises of generous future tax revenues, presents and a closely-established sense of "we-ness". It is well-known that local governments' promotion within the party depends on the growth and the general development performance of their village or county. And thus industrial expansion and the fiscal revenue that comes with it are crucial stimulus for local leaders. As McNally and Wright summarize, insider privatization led to a "thick embeddedness" of private capital holders' into the party-state that is bonded by material interests and benefits as well as by affective bonds (MCNALLY & WRIGHT, 2010).

ii. Wealth derived from land expropriation

Besides privatization, a second pillar for the consolidation of the investment-led rapid growth strategy was the conversion of rural into urban land through expropriation in large scale of former farmers. During the 2000's, China went through what Riskin called an "epidemic" of land seizures by local government, stimulated both by a booming real estate market and by fiscal necessities from local governments (RISKIN, 2008). An estimated 100 million farmers up to 2008 had their land expropriated at grossly under-market prices. Although land is still collectively owned in China, local governments have the prerogative to expropriate a certain number of farmers each year on the basis of "public interest" (transportation, water projects, public health or education), industrial use, and business development (real estate or commercial development). In face of rapid industrialisation, urbanisation and soaring land prices in cities, local governments transformed their control over rural land into a revenue-generating business and in a way of attracting more industries to their area. At least until the end of the 2000's, when Chinese arable area reached the bottom of 1.8 billion *mu*, or what the Chinese government considers the minimum necessary for food security.

Although local officials depend on good growth indexes in order to acquire political promotions, ever since the 1994 tax-sharing-reform, which re-centralized fiscal resources, local governments have faced budget constraints and have gone through land expropriation in order to alleviate their fiscal necessities. Tao et. al (2010) report some scholars estimations that land related revenues accounted for 30% to 50% for all sub-provincial governments and from 50% to 60% for city level governments' revenue. In order to improve their revenue collection, these local authorities are particularly interested in expanding business into their jurisdiction, especially industrial and residential ones. Housing projects are interesting from a fiscal point of view once they lead to high (and usually fast) business taxes. However, because China has very low property tax, once the sales are done, local governments' revenues drop quickly. On the other hand, manufacturing projects tend to have a longer take-off period, but once the factories are running, taxes increase gradually. Therefore, these two projects, real estate and manufacturing, are seen as complementary source of revenue generators, and land discounts or offers were the main instruments used in regional competition for investments (TAO & SU & LIU & CAO, 2009).

To draw those capitals, local governments were often engaged in one-on-one negotiations and lower land prices, including, in the most radical examples, giving away land leases free of charge. The compensation farmers get for having the land they work on expropriated is normally a very small part of the price sold to developers, which is already well-below what is believed to be a reasonable market price (GUO, 2001; ZHOU , 2009). The result is a distorted system of land appropriation that benefits industrial and civil developers, alleviates local governments' budgets, and leaves the burden of rapid urbanisation to farmers.

The transference of former state-asset (either land or companies) to private holders in privileging ways has created a powerful wealth accumulation driver through processes that can be easily perceived as illegitimate. Open data on Chinese wealth holding is highly difficult to access, but from the top-12 list of Chinese billionaires compiled by Hurun in 2009 (an imperfect approximation of wealth concentration), eight of them were in property development business (the three exceptions were in automotive sector, paper recycling and aluminium[11]). In face of the massive process of urbanization and related investments discussed before, it is not surprising that the vast majority had their business related to property development and industries that come along, as steel, aluminium and car makers (HURUN REPORT, 2009). Now that “some got (very) rich first”, China's “harmonious society” meets its brand new class of millionaires, a probable very enduring feature of its social stratification.

iii. Wealth derived from indigenous regulations

The third mechanism promoted by the party-state for both rapid capital accumulation and wealth concentration is very different from the two previous ones. We have called it indigenous regulation, trying to sum up several policies that have been taken forward by government agencies in order to support and foster innovation, high-tech sectors, home-grown proprietary ideas and Chinese brands. Indigenous regulation is very different from the two previous mechanisms in place because it is supposed to help to found a

[11] They were owners of the following property developing companies: Shimao, Country Garden, Xinhu, China Oceanwide (also in financial services), Hopson, Wanda, Ruoy Cha (also an energy drink), Suning (also in retail) (HURUN REPORT, 2009).

new accumulation pattern in China, one that gives a bigger role to internal consumption and that is marked by the country's upgrade into the global value chains. In second place, contrary to the first two mechanisms, the legitimacy of such policies is not being contested. Supportive regulation and governmental protection of national firms is not a source of social conflicts and mass mobilization as insider privatization and land expropriation from farmers. Rather on the contrary, the state support for the emergence and consolidation of Chinese brands is associated with a larger ideal of building up a stronger China that opposes to being subject to foreign control.

Supportive policies for the emergence of domestic brands have gained a new momentum after the "indigenous innovation" slogan, launched in 2006 by Hu Jintao and Wen Jiabao's administration for the promotion of Chinese brands into technologically intensive sectors. But they are not a new feature in Chinese policy making. The policies that the indigenous innovation slogan promote are well-known in China and have been employed for decades, specially technical standards that may favour domestic technology and large government procurements.

Technical standards have been largely employed in the telecommunication sector in order to favour and protect Chinese firms. A first remarkable case took place in the mid-1990's, with the selection of the V5.1, a technical standard for access network developed by Chinese companies, which crucial to the strengthening of Huawei and ZTE as national brands. Before the new regulation, domestic market for large capacity program-controlled switching systems employed in big cities was dominated by foreign brands. But their systems generally did not support the V5.1 access network. Once the Chinese Government enacted regulations stipulating that all program-controlled switching systems had to be compatible with the V5.1, "domestic firms took full advantage of the opportunity and entered the marked" (ZHAO & HUANG & YE & GENTLE, 2007, p 42).

A decade later, the preference for indigenous technology was also crucial for the selection of TD-SCDMA as the third generation mobile technical standard available nationally (LEE & MANI & MU, 2012). The standard was developed by Datang, a former research institute later transformed into a public company, and pushed by major Chinese mobile producers (including Huawei, ZTE and Lenovo). The "3G TD-SCDMA Mobile Communications Standard and Product Development" became a national program guaranteeing open support from different ministries, including through credit lines and favourable regulation. In 2009, the 3G TD-SCDMA was fully adopted in

China although facing open resistance from several foreign firms and national operators (GAO, 2010).

Besides technical standards, another key instrument for promoting national firms has been the Chinese public procurement system. Because of its huge size, government purchases have been transformed into a powerful instrument for industrial policy. Lenovo (by that time still Legend) grew strongly with the Golden Projects, a series of combined information technology infrastructure initiatives (telecommunications, customs and electronic payments) aimed at promoting administrative capabilities at all levels and developing an information economy (MA & CHUNG & THORSON , 2005). Since 2009, public procurement has been tied to a national innovation product accreditation system that plays in the areas of computers and application equipment, telecommunication products, modern office equipment, software, new energy equipment and high efficient energy-saving products. It means that innovative Chinese goods (the intellectual property rights of a patented product must be fully owned by a Chinese entity) enjoy preferential treatment in government procurement and tendering and bidding processes (SHI, 2010).

Such favourable policies are showing results not only in terms of upgrade into China's industrial base but also in the list of Chinese billionaires, which starts to show several names from the IT sector and new energies, taking the real estate sector a few places down in the ranking (HURUN REPORT, 2014). Just like the fortunes that were built during insider privatization and land expropriation from farmers, these new innovative capitalists are also strongly favoured by the party-state policies and rule. But as McNally & Wright (2010, p. 195) summarize, while most large private firms are somehow politically embedded in the party-state, "some are more embedded than others". This technological fraction has been favoured or supported by several national policies and by their *guanxi* (personal connection) ties into state-owned companies (with telecom providers, for instance). But the relationship between the wealth amassed and the support from the party-state is weaker if compared to insider privatization and land expropriation. Supportive regulation is comparatively more national-wide and impersonal as it does not demand the same type of one-to-one connections in order to be favoured. It is reasonable to infer that these innovative entrepreneurs are thus less embedded into the party than in the case of the first two fractions explored above.

6. Conclusions: state, capital and structural change

The relation between the state, social classes and the accumulation pattern vary radically in Brazil and China, and thus their distributional picture. In Brazil, two class fractions, that is, the banking-financial coupled with the commodity exporting fraction, had the control over the power bloc into the state and forged an accumulation pattern that brought no structural transformation to Brazilian economy. It was based on extremely high interest rates and dependent on the fast growth in the price and in the quantum of industrial and agricultural commodities exported to China.

At the same time, some distributional improvements were achieve through several policies – minimum wages' increases, expansion of credit, and minimum income schemes such as Bolsa Família – and led to the incorporation of the subproletarians into capitalist consumption. Nevertheless, such politics completed the process of legitimation of the banking-finance fraction through the incorporation of segments outside the power and thus forging an ample hegemony that lasted until economic crisis hit Brazil in 2015.

In China, wealth concentration and privileged fractions were submitted to a long-run accumulation strategy, with the party-state assuming an active role in creating several capitalist fractions. We have scrutinized three instruments through which wealth concentration took place: privatization, land expropriation and "indigenous regulations" for high-tech sectors. These instruments have favoured and created core fractions within the capitalist class, which were instrumental to the growth pattern as they operationalized the party's strategy for rapid capital accumulation – either through an investment-led strategy or through an attempt to promote China's upgrade into global value chains.

The state as a creator, nevertheless, is a two-way avenue: the newly created capitalist elite is not only subject to strong party apparatus influence but can potentially start shaping the party's political life from within. As society becomes more fragmented and economic power of capitalists grows, the cohesive characteristic of its state-society relation starts to get blurred, and the once perfect coincidence between the goals of the state and those of the (now several) different private elites may not be easily found anymore. In another terms, it is reasonable to project that the new class can also gain influence over the party-state policies. Wang Hui, member of the so-called Chinese new left intellectuals, points to an important change in the party's class basis, arguing that its long-term ideological function has been weakened through a process of depoliticization widespread in China (WANG, 2006). In the same way, other authors have pointed out that private entrepreneurs have already become an important force in political advisory and a "substantial portion of the local policy elite" (YANG, 2006, p. 157).

While in both Brazil and China these processes have culminated with the political strengthening of the top 1% and with wealth concentration in the same top, their dynamics over the accumulation pattern is radically different. Concentration in China was accompanied by constant structural economic transformation and industrial upgrading while in Brazil the distributional improvements among the bottom 99% was not enough to structurally boost the national economy in the medium-term, in large part due to the control of the banking-finance fraction over macroeconomic policy. The role of the state and its social embeddedness is a major explanatory factor in such differences.

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