

IS NEO-LIBERALISM UNDER ATTACK IN BRAZIL?

LULA’S RESPONSE TO THE ECONOMIC CRISIS

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Sub-Área:

4.3 Os Estados nacionais na nova configuração do capitalismo

Abstract

The Brazilian government’s discourse, disseminated all around the world in international meetings following the outbreak of the global crisis at the end of 2008, suggests a new position concerning the need of a more efficient financial markets’ regulatory mechanism. The official rhetoric points out above all to the return of a direct state participation in economic planning and to the critique of market oriented policies, in which Brazil would occupy a strategic and leading place. We support though, in this paper, that the measures so far announced by the Brazilian government to combat economic crisis – such as liquidity provisions, tax incentives, and the extension of unemployment assurance – do not represent neither a Keynesian inspired revision in the country’s capitalist development model nor a rupture with neo-liberalism. In fact, this points out to the particularity of the Brazilian case: a kind of reformed neo-liberalism. As several authors have already observed, since Luiz Inácio Lula da Silva’s inauguration in January 2003 the Workers’ Party not only preserved the main features of Cardoso’s macroeconomic policy, but intensified its very pillars: public sector surpluses and high interest rates. This was the only way, as government interlocutors sustained, to obtain “market confidence”. Nevertheless, the change in the Ministry of Finance commandment, due to a political crisis in March 2006, associated to world economic growth at that time, made possible some transformation in neo-liberalism’s trajectory in Brazil. Sure, public expenses still favours mainly the interests of great corporations, either national or foreigner. However, a considerable amount of public money has recently been invested in the expansion of higher education structure, in improving science and technology, in the betterment of public personnel, in infrastructure (transport and energy), in a subsidized credit policy (through state owned banks), and in a minimum wage improvement strategy. These are the factors which, as we shall argue, explain most of the impressive current economic recovery in the country in 2010.

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Resumo

O discurso do governo brasileiro, disseminado ao redor do mundo em conferências internacionais logo após a eclosão da crise global no final de 2008, sugere um novo posicionamento em direção à necessidade de mecanismos mais eficientes para a regulação dos mercados financeiros. A retórica oficial centra-se principalmente no retorno de uma participação mais ativa do Estado no planejamento econômico e na crítica das políticas orientadas pelo mercado, para a qual o Brasil estaria ocupando um papel estratégico e de liderança. Sustentamos, contudo, neste artigo, que as medidas anunciadas pelo Brasil para combater a crise econômica – como flexibilização do crédito, incentivos fiscais e extensão do seguro desemprego – não representa nem uma revisão de tipo keynesiana no modelo brasileiro de desenvolvimento capitalista, nem muito menos uma ruptura radical com o neoliberalismo. Na verdade, a evolução recente da economia brasileira aponta para uma particularidade do caso brasileiro: um tipo de neoliberalismo reformado. Como diversos autores já observaram, desde a posse de Luiz Inácio “Lula” da Silva em janeiro de 2003, o Partido dos Trabalhadores não apenas preservou as principais características da política macroeconômica de F. H. Cardoso; ele intensificou em certo sentido os seus dois pilares centrais: o superávit primário e as taxas reais de juros. Esta era a única maneira, sustentou o governo, de obter a “confiança do mercado”. No entanto, uma mudança no comando do Ministério da Fazenda, devido a uma crise política em março de 2006, associada ao crescimento econômico mundial à época, tornou possível algumas transformações na trajetória do neoliberalismo no Brasil. Evidentemente, as despesas orçamentárias ainda favorecem em sua maioria os interesses das grandes corporações, sejam elas nacionais ou estrangeiras. Porém, uma quantidade considerável destes recursos tem sido recentemente investida na expansão da rede de ensino superior, nos investimentos em ciência e tecnologia, na qualificação do funcionalismo público, na infraestrutura interna (transporte, habitação e energia), em uma política de crédito subsidiado (por meio de bancos estatais), e em uma estratégia de recuperação real do salário mínimo. São estes os fatores, como argumentaremos a seguir, que explicam, em essência, a impressionante recuperação econômica do país a partir de 2010.

1. Introduction

To understand the current international economic order, we have to remember the main features of the previous order established at the end of the World War II. Bretton Woods is presented where a great battle took place between Keynes and White. If this is true for several issues, we can not sustain this in relation to controls over the capital movements. Both supported that free flow of capital would undermine the interventionist policies and economic planning. They also supported only the movement of productive capital, and this movement should be controlled by the state. In fact, Bretton Woods sanctioned a restrictive order in relation to international capital movements³.

This order was challenged in the 1970's when interventionist policies were not working anymore and developed economies were experiencing stagflation. A new international economic order was forged based on free capital flows, but also on privatization, deregulation, liberalization etc.

This process changed capitalism, but to what? Globalization of Capital? *La mondialisation du capital*? *La mondialisation financière*? *La finance mondialisée*? Finance-Led Capitalism? Financialised Capitalism? Financialisation?

It is not in the scope of this paper discuss each of these different ways of analyzing capitalism and international economic order, but the key features might be highlighted: “a) the expansion and proliferations of financial markets, financial instruments and services; b) the expansion of speculative assets at the expense of mobilising and allocating investment for real activity; c) the dominance of finance over industry; d) the redistribution of income to a class of rentiers; e) the exploiting workers through provision of financial services at abnormally high levels of banking profits”⁴. These

³ See Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*, Cornell University Press, Ithaca, 1994.

⁴ Ben Fine, *Neo-Liberalism in Retrospect? It's Financialisation, Stupid*. Available at <http://eprints.soas.ac.uk/7993/1/seoulart.pdf>

changes led to the emergence of a global shadow banking system which is in the core of financial crisis of 2008-2009.

How this crisis affected Brazil is the main issue of this paper, in which we present the first outcomes of our joint research on Brazilian neo-liberalism and analyze Lula's government, specially his second term. This is a period marked by the most impressive GDP expanding rates since the 1970's, but also by very timid social progress.

Despite that, Brazilian government's discourse, disseminated all around the world in international meetings following the outbreak of the global crisis at the end of 2008, suggests a new position concerning the need of a more efficient financial markets' regulatory mechanism. It points out above all to the return of a direct state participation in economic planning and to the critique of market oriented policies, in which Brazil would occupy a strategic and leading place.

We support though, in this paper, that the measures so far announced by the Brazilian government to combat economic crisis – such as liquidity provisions, tax incentives, and the extension of unemployment assurance – do not represent neither a Keynesian inspired revision in the country's capitalist development model nor a rupture with neo-liberalism. In fact, this reflects the contradiction of the Brazilian case: a kind of reformist neo-liberalism.

Moreover, even though a change in the *regime of accumulation* may well be under way in the most advanced countries as a response to the crisis, this seems not to be the case in Brazil. In order to understand why this is not so, we will briefly analyze the recent transformations on the Brazilian economy from a radical institutional perspective. This perspective, which incorporates both the contributions of the US Social Structures of Accumulation (SSA) school and the (classic) French Regulation theory⁵, provides an

⁵ For the intersections between these two schools and the possibilities of a synthesis, see Terrence McDonough, "Social Structures of Accumulation Theory: The State of the Art", *Review of Radical Political Economics*, v. 40, n. 153, 2008, and David M. Kotz and al. (ed.), *Social Structures of Accumulation. The Political Economy of Growth and Crisis*, Cambridge University Press, 1994.

alternative framework to the understanding of the new dynamics of the Brazilian economy. More specifically, some key institutions are in the heart of a radical institutional political economy analysis and will be of special interest in what will follow: the capital-labor accord (or the labor bargaining power), the state (or the priorities in public spending), money (or the central bank monetary policy), the international insertion of the economy, and the internal competition frame (or the power of monopolistic groups in fixing prices and profits).

2. When and why President Lula's government became neo-liberal

In 2002 campaign, candidate Lula gave clear signals that his government would adopt an orthodox macroeconomic policy. At the evidence of a victory of the left, the Workers Party announced a "Letter to the Brazilian People" (basically to respect contracts and to maintain primary surplus) and the endorsement to the last of the Cardoso's government agreement with the IMF. Moreover, after his election victory, Lula dismissed the main exponents of the Workers' Party heterodox economists from the government transition team and, later, also from the economic team of the new government. In fact, his economic team was recruited in the same field of the Cardoso government: the economic orthodoxy represented mainly by economists in the Catholic University of Rio de Janeiro (PUC-Rio).

The main positions of trust in the Ministry of Finance (MF) and the board of the Central Bank of Brazil (BCB) were taken by economists from PUC-Rio and/or came from international and/or domestic financial institutions. Some of those who were appointed during the Cardoso government remained in Lula's government. And even others who had left Cardoso's government, returned to Lula's one.

Henrique Meirelles, a former CEO of BankBoston International and elected Congressman by the Cardoso's Party was appointed Governor of the Central Bank of Brazil. The key positions of the board such as International Affairs, Economic Policy

and Monetary Policy were taken by economists who had worked for IMF, World Bank, Lehman Brothers, HSBC, ABN AMRO, Santander, and Citibank in Brazil.

Antonio Palocci, a doctor and PT Congressman, was appointed to the Ministry of Finance (MF) in 2002. An ex-Trotskyist militant, he was the coordinator of Lula's electoral campaign due to the assassination of the previous coordinator. He also headed the transition team of government. Palocci represented the candidate, and subsequently, the elected president in meetings with the international and national financial community. He later strongly embraced orthodox economics.

Antonio Palocci had to resign in the beginning of 2006 because he was accused of corruption, during his tenure as mayor in Ribeirao Preto (the third largest city of the state of Sao Paulo), and was also accused of participating in the illegal breaking of banking secrecy of one of his detractors. Two important deputies of his team in the Ministry of Finance (Portugal et Levy) also resigned.

He was replaced in March 2006 by Guido Mantega, a once heterodox economist and president of the National Bank for Social and Economic Development (BNDES). Mantega appointed Julio Gomes de Almeida, an economist attached to the post-Keynesian thought and organic intellectual of industrial bourgeoisie (he ruled a think tank called Institute for Studies in Industrial Development (IEDI)). But the change did not materialize. Gomes de Almeida was dismissed in April 2007, after criticizing the policy of high interest rates charged by the Central Bank.

It should also be highlighted that initially the economic team of the Lula's government was recruited in the same "field" where the team of Cardoso's was also recruited. The peculiarity of this field is the training and/or the links with the financial system and international and/or multilateral financial institutions, where Orthodoxy economics is the rule. This explains the early "credibility" of Lula's government with the financial community.

However, the resignation of Palocci opened the gates of the Ministry of Finance to non-Orthodox economists, including the new minister. The Central Bank has also undergone through changes. On the one hand, the deputies linked to the PUC-Rio left the BCB, but on the other hand, the links with the international and national financial system were strengthened because they were replaced by new deputies coming from that market.

But, in fact, no major change has happened in the conduct of the macroeconomic policies.

3. The 2008 crisis and its aftermath

The economic recovery in Brazil, after last year's credit crunch, has been faster than anyone would predict. But, however successful the Brazilian approach to the economic crisis was, it cannot be considered as a reformist, Keynesian one, neither the rebirth of state capitalism in Brazil, as some authors prefer to understand Lula's government⁶.

Actually, in the very beginning of October 2008, on a statement to the press, Lula affirmed that the impact of the international financial turmoil in Brazil would be only a ripple, compared to the tsunami that hit central countries. That was apparently the only Keynesian attitude of Lula's administration since the global crisis showed up. From then on the president and his economic team proceeded with a positive rhetoric, preventing, quite successfully, an abrupt diminishment on private investments⁷.

Maintaining private investor's and families' confidence at a high level is, from a classic Keynesian standpoint, an important measure in order to recover domestic expenditure in

⁶ Several authors approach the Brazilian economy under Lula as a new *developmentalism* or State capitalism era, recovering some aspects of Keynesianism and economic nationalism which prevailed from 1930 till 1954. See Luiz Gonzaga Belluzzo, "Um novo Estado desenvolvimentista?", *Le Monde Diplomatique Brasil*, v. 3, n. 27, October, 2009.

⁷ Until september 2008 the government's expectations concerning the 2009 GDP growth matched the markets' ones (around 4,0%). From october 2008 to february 2009, the government maintained that figure, while economists from the financial market revised their expectations from 3% in november to 1,75% in february 2009. Currently, independent forecasts estimate a 0% GDP growth in 2009. See the *Banco Central do Brasil* and *Ministério da Fazenda* reports on their respective websites.

a context of economic crisis. Also, from international tribunes, Lula's statements emphasized the importance of a reform in the regulatory system of financial markets, clearly inspired of a Keynesian perspective.

Yet, besides the psychological dimension of this reformist rhetoric, very little has been done concerning the regulation of speculative capital flows, the stabilization of exchange rate market, the necessity of a consistent reduction on interest rates, and the solution to the impressive inequality levels in Brazil. All these topics comprehend central issues in a Keynesian perspective of economic policies to put the economy on the road to full employment.

As we will see below, the neoliberal pillars of its economic policies have not been modified. On the contrary. monopolist capital, and not ordinary working people, has benefited the most from the special measures to fight the crisis. A concentration trend is right now in course in several economic sectors such as banking, agribusiness, telecommunication, retail sales, with big Brazilian groups leading this movement, stimulated by special loan programs from BNDES⁸. This state-owned financial institution, which lends money to and invests on strategic economic sectors, changed manifestly its priorities under Lula's government, when started to focus on the internationalization of Brazilian enterprises⁹.

Brazilian government is proud of having spent the lowest amount of money among the richest economies in the world to fight the crisis. How could a leading economy spend so little and recover so fast? The answer to this question is not a simple one, but the straightening of the relationship with monopolist capitals during Lula's government should be taken in consideration in every analysis of Brazilian response to the economic crisis. New subsidies, extended concessions, virtually no taxes over profits, an appreciated exchange rate, and last, but not least, one of the highest return to private investments, were part of the receipt to stimulate the economy.

⁸ See Folha de São Paulo, "Em 18 meses, BNDES gasta R\$5 bi para criar 'gigantes'", 05/10/2009.

⁹ See Matthew Flynn, "Between subimperialism and globalization: A Case Study in the internationalization of Brazilian capital", *Latin American Perspectives*, v. 34, n. 9, 2007.

Counter-cyclical measures such as loosening monetary and fiscal policies¹⁰ do not constitute *per se* a radical change from the general lines of a neoliberal, finance-led economic model¹¹. In Brazil, those measures, rather than regulate economic power and promote a more equal distributive arrangement, exacerbate a historical market-oriented development strategy and its contradictions¹². To begin with, inequalities in land property and in the broad perspective of functional distribution of income have been growing during Lula's government¹³. What's more, the Workers' Party have not hesitated to sustain a vast program of neoliberal reforms, concerning, for instance, the institution of a new pension system¹⁴ and a new environmental law, both allowing a greater private sector share in the regulation of these issues. Additionally, important redistributive programs, such as a broad affirmative action project or the taxation of big fortunes, were discarded by the government.

Sure, we will see that some subtle but not least important changes in the economic strategy have been registered under Lula's government in comparison to Cardoso's, his predecessor in the presidency of the Republic. These ones consider a faster recovery in the real minimum wage (plus 60% beyond consumer prices since 2002); the establishment of a minimum revenue (*bolsa família*) extending it to practically the whole of poor families in the country (i.e., 12 million households¹⁵); a new education

¹⁰ Brazil reduced interest rates to a record low in real terms during 2009. The nominal surplus is also in a diminishing trend. Even though, Brazil still has one of the highest interest rates in the world and keeps transferring huge amounts of its receipts to meet a 2,5% of GDP nominal surplus annual goal.

¹¹ Even Reagan had to loosen his monetary policy to face 1982 recession, cutting real interest rates in 3 percentage points.

¹² The economic role of state in Brazil begins to change from a more *national-developmentist* project until the second Vargas term (1950-1954), to a more liberal policy towards foreign capitals in the Kubitschek government (1956-1960). This reorientation was fully consolidated during the years of military dictatorship (1964-1985). See René A. Dreifuss, *1964: a conquista do Estado*, Vozes, São Paulo, 1981; Guido Mantega and Maria Moraes, *Acumulação monopolista e crises no Brasil*, Paz e Terra, São Paulo, 1980; Edmilson Costa, *A política salarial no Brasil. 1964-1985*, Boitempo, São Paulo, 1997.

¹³ Notice that a slight reduction, but a continuous one, in labour market inequalities has been observed in the last 10 years. This means that for those who lives on a salary there seems to be more opportunities; however, for those who lives on the revenue of capital, the gains have been huge under Lula.

¹⁴ See Lúcia Rodrigues, "Governo mantém perdas para 38% dos aposentados", *Revista Caros Amigos*, october, 2009.

¹⁵ It worths to mention that this official estimation is based on a conservative, World Bank inspired measure of poverty, the *poverty line*, which supports the government's social programs.

program consisting of subsidies for undergraduate students (200 thousand beneficiaries in 2009) associated to the construction of several new public universities¹⁶; and the increase of public spending in strategic infra-structure projects (known as the Economic Acceleration Plan, the *PAC*, with some R\$ 500 billion estimated to be spent between 2007 and 2010). This entire economic program was set up well before the crisis emerged. As we shall argue, these instruments, improving the purchasing power and employment of lower classes, are much more important to explain the rapid economic recovery of Brazil than any trivial counter-cyclical (and market-oriented) measures that have been announced so far¹⁷.

If, as a whole, poor people and, more generally, the less qualified working class do not suffer the same impact today in comparison to other crisis¹⁸, and can sustain their consumption level, due to employment, wage and debt expansion, there seems to be no doubt that upper classes got the essential benefits from the government. Interest rates are lower now but are still among the highest in the world, rewarding *rentiers* and speculative capital with a return to the capital much beyond than they could get anywhere else in the world.

Considering the external conditions of the Brazilian economy some important transformations may also be mentioned. External vulnerability is much less important than it used to be in the recent past. International reserves are now at a much more comfortable situation in comparison to ten years ago. As we can see in the chart bellow, Brazil accumulated a record high level of reserves measured in terms of months of imports in 2009.

¹⁶ Le Monde, "Lula invente l'université brésilienne du XXI^e siècle", 14/10/2009.

¹⁷ Lula's economics also diverges from Cardoso's in the reaction to a international crisis. Following the Asian and Russian crisis in 1997-1998, Brazil not only increased interest rates to stop the losses in international reserves, but devaluated the exchange rate by a sudden and shocking measure in January 1999. In a context of diminishing public expenses, this implied in long months of recessions to the country.

¹⁸ Unemployment hit its higher level in March 2009 (5,1%) since the crisis began, and though it is a record low for that month in the last 7 years.



Source: IPEA-2009.

In addition to that, the consolidation of new international partners, such as the Mercosur and China, reduced the dependence on European Union and North America, which are, by the way, areas deeply affected by the financial crisis. As a result, Brazil was able to nationalize its external debt obligations and normalize its relation with foreign financial institutions.

4. More of the same

The analysis of the crisis in Brazil does not differ too much from the analysis of Lula's government itself as a whole. It should be understood as part of a consistent and planned strategy of reform under neoliberal dominance. Poor are better off, but riches are the most benefited from the economic programs, before, during and after the crisis. That's why one should not characterize the changes undertaken by Lula as a Keynesian inspired regime of accumulation. The slight reorientation in public spending, which has been quite efficient in terms of economic growth, has not changed so far the country's deeply unfair distributive structure and the private culture in the heart of the state.

In a very opposed conception from the conservative economic model which predominates in Brazil, a classic reformist, Keynesian policy should permit, in the long-run, a relative growth of wages' share compared to capital's share on the total amount of wealth produced in the country. The basic aim here is to regulate the so-called labor force surplus, through the introduction of a progressive tax system and the adoption and of a broad labor security legislation, by the one hand, and, by the other hand, by means of massive spending in social policies. These were the central characteristics of the welfare state, radically contrasting from the (neo)liberal state, which focuses on free-market and deregulation.

In Brazil, a peripheral version of the welfare state was established, and is right now under the pressure of the spreading dogma of minimum state. The state tried in vain, and for the last time, in the 1960-s, to introduce the bases of a more nationalist, distributive economic model. Conservatives responded violently to this reformist intent. The 1964 *coup d'état* consolidated the interests of the conservative élite, which have not really been threatened since then. As a result, Brazil is still a low wage economy, with a very concentrated class structure¹⁹, and a well established monopolist capital domination.

A political economy analysis of Lula's government response to the crisis can show that the measures adopted reproduce this excluding economic model. Take, for instance, the chief of the measures announced in the beginning of 2009: fiscal incentives to boost durable goods consumption, such as cars and refrigerators. Media analysts, who, not surprisingly, concentrate their analysis on the appearances sphere, have rapidly concluded that working people were the major beneficiaries of these measures, since they got back their jobs in the industries concerned and recovered their purchasing power. That's not really so, since, on the first hand, people buy in Brazil by credit, and credit in Brazil is more expensive than anywhere else in the world; on the second hand,

¹⁹ Upper classes, composed by highly qualified workers, professionals, and managers, represent only about 10% of the population in 2000. 50% of the working class do not have a formal link to their boss, or work by themselves, and have a very limited access to the benefits of social and employment security.

employment on the monopolistic sector represents a very small share of the total working class in the country; and, finally, fiscal incentives mean diminished receipts to the state, and more profits to a typically foreign capital dominated industry.

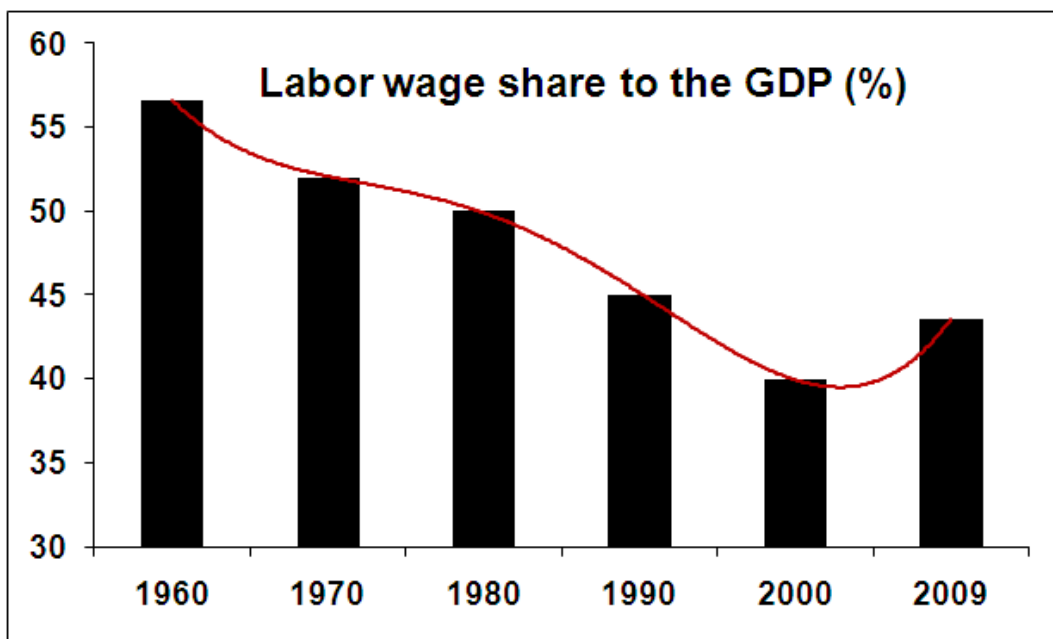
5. No major transformation in the social structures of accumulation

Despite the enormous success of the Brazilian economy under Lula's second term government to reduce both poverty and external vulnerability to a record low²⁰, and to generate the higher GDP growth rates in the last thirty years, recovering faster from the 2008 crisis than most of the other highly industrialized economies, this does not constitute a major transformation in the regime of accumulation in the country. Neoliberalism, although on a revised form on Lula's last term, is still the philosophical foundation orientating Brazilian economic model.

Let's take, for instance, the labor-capital accord, a leading institution in the determination of a regime of accumulation. Under Lula, direct labor lower classes wages have been increasing faster than ever. However, indirect wages, such as health care benefits, are stagnated. Government spending in the welfare programs has not progressed, deteriorating an already historically deficient public service in this area. Moreover, nothing has been done to interrupt a recent trend, which begun in the 1990's, of flexibilization of labor relations in the country. As a result, unionization rates fell to a record low in under a democracy period, the informal labor market has not really stopped its development and CEO's remunerations have become sometimes superior to advanced countries. Not surprisingly, wages share to the GDP has hit its lowest level in the 2000s, despite a controversial recovery in 2009²¹, as we can see in the chart bellow.

²⁰ These recent results clear contrast to the more timid achievements of his first term. See Lecio Moraes and Alfredo Saad-Filho, "Lula and the Continuity of Neoliberalism in Brazil: Strategic Choice, Economic Imperative or Political Schizophrenia?", *Historical Materialism*, v. 13, n. 1, 2005; and Rosa Maria Marques and Paulo Nakatani, "The State and Economy in Brazil: An Introduction", *Monthly Review*, v. 58, n. 8, 2007.

²¹ These are 2009 official projections, based on the highest rates of growth of labor wages in comparison to productivity. These projections do not take into account the high levels of financial capital remuneration, however.



Source: IPEA, 2010.

Secondly, let's consider the state priorities in terms of its spending and financing. If the improvement of the welfare state is not the destination of a rapid growing budget, where then is the money going to? Speculation and monopoly capital is the answer. As we've already seen, with the highest interest rates in the world and a deregulated financial market, Brazilian stock exchanges have become very attractive to speculative capital flows. On the other hand, the government adopted subsidized interest rates to finance big companies investment projects in the real economy. Finally, Lula has completely avoided the possibility of a progressive tax reform in Brazil.

The monetary policy, another key institution for any such regime of accumulation, has not been neither subject to important changes. The central bank has not revised during Lula's administration its neoliberal free market orientation on the determination of interest and exchange rates. On the contrary, the independency of central bank has been strengthened in recent years. The Workers Party has even considered nominating the central bank chairman, Meirelles, as its vice-president candidate for the 2010 elections.

If the Brazilian economy is again on a rapid growth trend we should be capable of identifying the institutions which are favoring this process. Seemingly, the government has been working on the consolidation of monopoly capital in the country. This has led,

on the one hand, to a new kind of labor-capital accord in the formal sector of the economy, generating high rates of growth in both wages and productivity in recent years. However, this sector concerns as much as half of Brazilian workers, the other half being submitted to very miserable and unsecured labor relations. On the other hand, this strategy has been very effective in reducing the external vulnerability of the country, even if the technological dependency vis-à-vis the advanced powers has not been approached by Lula's economic policies. If this revised strategy has been surely important to the private capital accumulation, including an impressive recovery from the financial crisis, we are still very far from a significant rupture with the foundations of the core institution structures set which characterizes the neoliberal economic model in Brazil²².

6. Concluding remarks

Hence, is Brazil's response to the crisis an alternative to neoliberalism? President Lula believes so. He recently stated that the crisis ended with the ideological hysteria about the role of the state and allowed the "state to be the state again". He also said that the Washington Consensus "succumbed".

Is he right? We don't think so.

The recovery of exports promoted at the end of Cardoso's second term and maintained by Lula's government has significantly reduced the external vulnerability of the Brazilian economy. However, the favorable balance of trade is related to the demand for commodities and the cycles of international trade, on which Brazil has no control.

The Ministry of Finance extended its control over fiscal policy, but it still remains constrained by the budget primary surplus. There should be no doubt that the major

²² Kotz argues very interestingly that neoliberalism may survive major crisis in capitalism, suggesting that a broader set of institutions shall be taken into consideration in the analysis of long run evolution of the economies. David M. Kotz, "Neoliberalism and the Social Structure of Accumulation Theory of Long-Run Capital Accumulation", *Review of Radical Political Economics*, v. 35, n. 263, 2003.

issue concerning the economic autonomy of a country is its capacity to rule the monetary policy. Yet, Lula has none or very little control over monetary policy which is officially held by the central bank, but actually being conducted by the representatives of financial markets.

A concrete rupture with neo-liberalism should obviously rest on the state control of the central bank and the monetary policy. While those institutions remain independent and regulated by “technical” decisions, in the name of economic efficiency of the markets, Brazil shall still be kept hostage of financial and monopolist capitals.