Political Aspects of Unemployment: Brazil's Neoliberal U-Turn

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Throughout the world, the reversion of fortune suffered by the Brazilian economy since reaching its zenith as recently as 2010 has confounded shrewd commentators, seasoned analysts and market players alike. As 2015 unfolded, ominous projections ("*An Economy on the Brink*", "*Brazil's Economy Falters*" "*Worse May Be To Come*") were no less widespread than expressions of bewilderment ("*Whatever Happened to Brazil*", "*Brazilian Waxing and Waning*", "*Brazil's Scandalous Boom to Bust Story*"), and, more recently, of alarm ("*Goldman Sachs Says Brazil Has Plunged Into 'An Outright Depression'*") concerning the fate of the South American BRIC country.

Despite profuse official protestations to the contrary, however, Brazil's afflictions turn out to be of its own making, as it so often proves to be the case. Looking at the set of clearly laid-out policy choices made by the Brazilian government – and the almost as clearly spelled-out political objectives underlying them – should provide enough explanatory evidence to sort out this cautionary tale for developing countries everywhere.

A Tale of Two Policies: from Deceleration to Stagnation to Collapse

The origins of the 4.5% fall of Brazilian GDP in the first three quarters of 2015 can be traced back to the economic policies implemented during President Rousseff's first administration.[1]

Between 2011 and 2014, Brazilian economic growth was halved, averaging only 2.1% annually, in comparison with a 4.4% average in the 2004-2010 period. But

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[1] For a more thorough macroeconomic analysis of this period, see F. Serrano & R. Summa, *Aggregate Demand and the Slowdown of Brazilian Economic Growth from 2011-2014*, Centre for Economic and Policy Research - CEPR, Washington DC, August 2015.

this acute slowdown of economic activity is only the first of the symptoms arising from a series of policy changes promoted by the ruling Workers' Party (PT) government under President Dilma Rousseff.

From 2011 to 2014, a clear change in policy was promoted with the deliberate purpose of reducing the direct role of the state in the Brazilian economy, although important social inclusion policies concerned with decreasing inequality remained in place during that period.

The chief objective of this policy change was to signal that the admittedly, notoriously successful strategy pursued until 2010, in which the public sector played a central role in directly promoting economic growth, would no longer be pursued. The previous strategy, as is well known, was implemented chiefly through the public sector (including state-owned companies and public banks) stimulating aggregate demand and generating supply-side structural change through public investment.

This development strategy enabled robust growth to be consistently achieved and allowed significant reductions in inequality to be fostered. In turn, the resulting changes both in the Brazilian social matrix and in labour-market relations generated growing political resistance from the country's financial and business communities. Even at the height of prosperity, large private media groups and economists associated with, or sponsored by, large private banks, were particularly vocal in expressing their discontent.

Beginning at the end of 2010, in an attempt to placate the increasingly strident criticism from corporations, banks, part of the opposition and the media, President Rousseff and her party (with the public acquiescence of former President Lula da Silva) decided to endorse the view that the government was intervening "too much" in the economy.

Instead of acting as a primer for aggregate demand expansion, the government's economic role was openly shifted to one of slowing down the growth of domestic demand and mainly providing incentives for private investment, in the shape of substantial and unconditional tax cuts to business, together with a (quickly reversed) reduction of interest rates and a first large exchange-rate devaluation. Unlike more traditional trickle-down theory, the rationale underlying the policy was that private business should thus be stimulated to lead economic growth, instead of following in the wake of public investment and social transfers, as had happened in the previous decade.

This policy shift initiated in 2011 proved nevertheless ineffective, and as public-sector investment fell dramatically no corresponding increase in private investment and net exports materialised. The downward effects were compounded when unusually dry weather and mismanagement of the energy policy guidelines imposed on Eletrobras, the large state-owned electricity company, pushed the country close to a serious power shortage in 2014, despite the fact that demand was weak because domestic economic activity had been decelerating every year for four years.

Instead of reverting to the successful policy trajectory of 2006-10 and seeking to improve long-term planning through better technological and infrastructure policies, the second Rousseff administration inaugurated in January 2015 decided to double down on its market-led strategy. From the first day of its new term in office, the government fully committed itself to implementing the policies championed by the defeated conservative opposition during the recent 2014 election campaign.

In fact, President Rousseff's government went significantly further than that. Working in close concert with Brazil's redoubtable financial industry (the new Minister of Finance came into office straight from the Executive Board of the country's largest private bank), the PT-led government has put in place a vastly more radical version of the austerity recipe lately in fashion in many northern hemisphere countries and multilateral institutions.

This neoliberal U-turn was materialised in an unprecedented combination of public spending cuts, consecutive interest-rate hikes, an array of credit-inhibiting measures, and large increases in utility prices. By deploying simultaneously every available policy tool that can decelerate economic activity, while allowing a substantial exchange-rate devaluation to occur, Brazilian authorities created a perfect storm of austerity that has plunged the country in what has become its deepest recession since 1990, with a net loss of 1.4 million formal jobs over the last twelve months.

The World's to Blame: the Brazilian Government Version

Given that five years of continually deteriorating, and ultimately collapsing, macroeconomic figures – including eight consecutive quarters of falling investment – cannot easily be swept under the carpet when it comes to an economy the size of Brazil's, the official line has consistently been one of explaining away the negative results of deliberate economic policy choices by blaming adverse international conditions. Not a particularly creative line of official discourse, and hardly ever a defensible one, trying to make the "international crisis" the culprit of present Brazilian predicaments is very much akin to blaming the sinking of the Titanic on climate change.[2]

Even basic analytical scrutiny can reveal that changes in external economic conditions, such as trends and composition of the balance of trade, or the availability of external finance have had very little direct impact on the overall performance of the Brazilian economy over the past five years.

It is not amiss to point out that Brazil's exports grew only feebly between 2011 and 2014 (1.6% on average), primarily as a result of much weaker world trade, combined with a sharp fall in commodity prices. However, this admittedly underwhelming performance had a virtually negligible direct effect on aggregate demand, once the small relative weight of exports in Brazilian GDP (of around 11%), as well as the very high import coefficient of many key Brazilian exports, are taken in account.

Furthermore, are even more relevantly, Brazil has not faced even the remote threat of a balance-of-payments crisis at any point of its trajectory from economic deceleration to stagnation to collapse. Foreign debt has remained at historically low levels (under 16% of GDP) from 2010 to 2014, being even lower than that by July 2015, while international reserves stood at historical peak levels throughout the period and, at US$ 370 billion, currently amount to nothing less than 20% of GDP.

Despite this remarkably solid balance-of-payments position, the threat of Brazil's sovereign credit rating being downgraded by private international agencies (which finally came to pass on March 2015) was repeatedly invoked as one of the main arguments used by financial market economists and Brazilian government officials alike to justify why even deeper spending cuts and ever wider austerity measures had to be implemented domestically.

Thus a recurring conflation between domestic public debt denominated in local currency and the country's foreign liabilities in hard currency (both private and public) was introduced at the heart of the Brazilian economic debate and presented as a crucial lynchpin for preventive, and subsequently, corrective contractionary policies.

This rudimentary rhetorical artifice was taken to an extreme of conceptual befuddlement when Standard & Poor's textually reaffirmed Brazil's strong foreign-exchange position in the body of very same document that announced

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[2] Without belabouring the point overmuch, a Brazilian cabinet minister actually combined both when he declared, last May, that the government had "*absorbed as long as it could the impacts of the international crisis* <u>*and*</u> *of climate change – and this policy has [now] reached its limit.*"

that the country's foreign currency ratings were being stripped of investment-grade status, in early September.[3]

The rating agency justified placing Brazil below investment grade because of its "*fiscal performance*" and of the "*rise of net general government debt*". The report goes on to mention Brazil's "*low external financing needs*" and "*its high level of international reserves*".

From a macroeconomic standpoint this raises more questions than it answers since it is by definition impossible for any government to be compelled to default on internal debt denominated in its own currency. In any country where the Central Bank can buy and sell any quantity of short-term government bonds in the secondary market to set the basic interest rate of the economy, any bonds not purchased by the private sector can be (and usually are) bought by the central bank itself at the set interest rate. For some reason, this simple fact of public finance seems to have eluded both Brazilian advocates of ever-growing austerity and the obdurate analysts of US credit-rating agencies.

To be fair, after Brazil, S&P also downgraded Japanese government bonds (having even downgraded US government bonds some time ago), thus confirming that the rating agency's peculiar brand of macroeconomics is not restricted to, nor directed against, Brazil. When taken to court in the US (and Europe) over their role in the financial crisis of 1997, credit rating agencies stated through their lawyers that their ratings are "merely an opinion," protected as free speech, and should not be construed as anything other than that.[4]

Apparently President Rousseff took these "mere opinions" very seriously and the downgrading by S&P was ostensibly used to justify yet another round of proposed cuts. The rating agency's opinions were only selectively taken on board by the Brazilian government, nonetheless, insofar as ministers and officials went on talking about the importance of reining in gross (domestic) public debt, regardless of the S&P report's specific mention of net government debt being the problem.[5]

The result was that even though exports are not a significant direct source of aggregate demand in Brazil, and in spite of the fact that for years the country has

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[3] This particular instance of rating-agency theoretical innovation was timely spotted by M. Vernengo in http://nakedkeynesianism.blogspot.com.br/2015/09/from-bbb-razil-to-bbrazil-or-meaning-of.html

[4] *See* Jefferson County Sch. Dist. v. Moody's Investor's Servs., Inc., 988 F. Supp. 1341, 1348 (D. Colo. 1997), *aff'd*, 175 F.3d 848 (10th Cir. 1999)

[5] Gross debt in Brazil is larger than net debt mainly because of monetary and credit policy operations, particularly by the bonds that are the counterpart of the massive foreign exchange reserves and, to a much lesser extent, by loans to government owned banks.

had very comfortable levels of foreign-exchange reserves and relatively low levels of foreign debt – in other words, that there was no threat of balance-of-payments problems in the horizon – the international crisis was blamed for the economic downward spiral brought about by the government's increasingly restrictive and orthodox policies.

Wage Share and Distributive Conflict: the Politics behind the Policies

Until recently Brazilian authorities made use of by now run-of-the-mill rhetoric to justify the arsenal of austerity measures that effectively derailed the Brazilian economy. That came either under the guise of the standard "the international crisis made me do it" discourse just described, or by resorting to the notion that fiscal (and, in the present case, also monetary and credit) pains are the only way to ensure growth gains – the well-known "expansionary fiscal contraction", or "EFC", argument.

As it turns out, the previously unstated purpose of the set of policies currently being implemented in Brazil is to weaken the bargaining power of workers by reducing real wages and by increasing unemployment. Unlike advanced Western economies, the institutional ensemble that protects the interests of labour in Brazil is comparatively weak and lacking both in organic and in party-political clout. Thus, swelling the ranks of unemployed workers has the added benefit of effectively reducing the resistance to the introduction of the neoliberal measures necessary to reverse the advantages gained by labour over the past decade, perceived as being excessive.

As recently as June 2015, Finance Minister Joaquim Levy told an audience of business executives, in the presence of both local and international press, that it was time to "*rethink the country*" and that he intended to "*abandon rhetoric and face some realities*." His declared aim was clearly spelled out: "*We are going to have to reverse this reduction in the supply of labour.*" According to Minister Levy, there were people who previously "*did not want to join the labour market, who now will have to look for jobs*", thus causing labour supply to be increased. As a corollary, the audience was told that "*There can be no economic growth without an increase in labour supply*."[6]

It matters little that, in saying so, the minister made a rather crude mistake in terms of economic theory. Even according to the tenets of the orthodox, neoclassical growth theory he avowedly subscribes to, it is of course only a fully-

[6] See http://www.valor.com.br/brasil/4091982/crise-e-momento-importante-para-repensar-o-pais-afirma-levy

employed labour force that would generate growth – and not the unemployed who, by definition, produce nothing.

But politically Mr. Levy's diagnosis was an accurate, if somewhat blunt, one. The bargaining power of the Brazilian workforce was, perhaps inadvertently, much increased by a tight labour market between 2006 and 2014, as well as by successful social policies introduced by the PT-led government over that period. Unemployment had fallen markedly and average real wages in the formal sector increased continuously, at a steady average of 3% per annum, beginning in 2006. Even more relevantly, having reached a deep trough in 2004, the wage share of GDP has been recovering since then.

After much political pressure from private business (despite record-high profit levels reached in the preceding decade) and, even more vocally, from large media groups and opposition parties, in 2015 the PT-led government began to act in earnest to reverse this state of things by means of increasingly strong measures.

The fast generation of unemployment by means of radical austerity policies, as well as sharp shifts in income distribution away from wages, have created a political climate in which it is possible substantially to decrease the size and importance of the Brazilian state in the overall economy. This, in turn, is paving the way for a roll-back of distributive gains, labour rights and social benefits put in place since 2003, some of which are already being either dismantled or significantly reduced.

Many PT militants, as well as social movements and trade unions, were clearly taken aback by this sudden and unequivocal endorsement of a neoliberal agenda they had together long opposed, and one that hurts their own working-class base the hardest.

This reaction, if understandable, is somewhat predicated on wishful thinking. Closer empirical analysis of its 30-year history reveals that the PT has an established tradition of avoiding direct confrontation with the country's conservative property-owning classes once they are in power, whether at local, state or federal level. While they sincerely appear to want to promote social change, the ruling party’s top people have long been steered by a consensus-seeking credo according to which there is no situation where a compromise that avoids upsetting Brazil's moneyed elite, while simultaneously improving the lot of the country's huge underclass, cannot be reached.

This peculiarly cordial brand of political philosophy may seem to stretch credulity when one considers that Brazil is the only country that figures simultaneously among the top 20 largest economies and among the top 20 worst income distributions in the world. Nevertheless, this political squaring of the circle had seemed possible prior to 2011, at the federal level, in the wake of a foreign-exchange bonanza, coupled with the extraordinary surge both in domestic consumption and in profit levels that followed the initial opening of the "social inclusion" floodgates.

As sporadic conflicts over income distribution in the political arena became more widespread, and ideological criticism gave way to undisguised class antagonism, the previous self-congratulatory mood among the ruling party's top brass changed into one of diffidence and alarm. Faced with a hostile new Congress after winning the 2014 presidential elections, and weighed down by its heavy dependence on funding from big private firms and banks, the PT leaders' pliable ways and placatory beliefs translated into a seldom seen episode of top-down political capitulation.

The Hunt for Red Corruption: a Very Brazilian Affair

What may seem intriguing from the perspective of an external observer is the fact that the ongoing public debate in Brazil gives virtually no emphasis to all of the key economic and political factors hitherto mentioned. Any visitors to the country since 2014 will tell a similar tale, of an entire society that daily devotes its full attention not to policy, but to police matters.

Since at least the days of the late President Vargas, in the early 1950's, public corruption has been the go-to political tactic of the Brazilian conservative establishment, whenever a situation seen as unduly imbalanced in favour of labour needed to be tackled in short order.[7] And that is precisely the perception that took shape over the course of President Rousseff's administration, and was solidified by the defeat of the right-of-centre candidates Aecio Neves and Marina Silva in the 2014 elections.

Even though from her first days in office President Rousseff's policies of reducing the government's role in the economy and promoting unconditional tax cuts to business ostensibly aimed to please both the Brazilian private sector and foreign investors, recurring economic and political mismanagement resulted in that, by the end of her government's first term in 2014, those policies in practice served no one. Business saw growth and profit levels go down and investment fall, while the labour market remained tight. Workers also had little to celebrate as

[7] Besides removing Vargas in 1954, the moral crusade against corruption was a key tool again in toppling President Goulart (who championed a "trade-unionist republic") in '64, and in preventing the election of Lula da Silva and his left-wing coalition in '89, before reappearing unsuccessfully to try to impeach then-President Lula in 2005, and again, more forcefully, in the last few years.

household disposable income stagnated then fell, and jobs became increasingly thinner on the ground.

From the perspective of Brazil's traditional economic and political elite, it had became plain by then that change would have to be much deeper and to come much faster. For those familiar with Brazilian political mores over the last century it should hardly come as a surprise, then, that long-prevailing but shady contracting practices involving the country's state-controlled oil and gas company, Petrobras, became an overnight outrage and began to be treated as nothing short of a national emergency.[8]

What is perhaps less widely known outside Brazil is that, this time around, the anti-corruption discourse did not gain the political centre stage through the efforts of the conservative opposition alone, but was in fact ushered in and given priority status by President Rousseff herself. Since taking office in 2011 she repeatedly stressed her personal commitment to prosecuting "*wrongdoers*" and fighting corruption – quickly dubbed by both domestic and international press as a "clean-up" (*faxina*) operation.

By the end of 2013, however, the anti-corruption broom, as it were, had changed hands. It was no longer merely a case of producing media sound bites, replacing the odd cabinet minister or conspicuously introducing (increasingly cumbersome) regulatory compliance requirements, as the PT-led government had been doing so far.

The probes into Petrobras' dealings that began a few months earlier were being conducted by groups clearly hostile to the ruling party and its leaders, and when the first indications of the involvement of politicians surfaced, President Rousseff's government and former President Lula da Silva became the obvious political targets, despite the fact that both situation and opposition politicians were equally implicated.

The public reverberations of the ensuing media campaign were greatly amplified by the eagerness for the limelight of politically ambitious magistrates and prosecutors whose every action received instant praise from large newsgroups openly sympathetic to the opposition camp. This represents a new development in its own right, signalling a departure from a long-established tradition of Brazilian members of the judiciary keeping out of politics that, in its own right, could add a different dimension to future political use of the anti-corruption discourse in the country.

[8] President Cardoso (who championed privatisation and the Washington Consensus agenda in Brazil from 1995-2002) admits in his recently published memoirs that he had knowledge of the Petrobras "scandal" since October 1996, thought of intervening in the company, but ultimately chose not to do so.

Keeping in character, President Rousseff's government treated the Petrobras affair as a political live wire and sought at every stage to keep its distance from it. This was a problematic strategy, at best, given that the government holds a controlling interest in the company, whose economic and strategic importance is of such an order that ministers of state are regularly appointed to sit in its board of directors.

Besides earning the government no image or political dividends, their chosen attitude of "splendid isolation" towards the Petrobras affair ultimately cost the company itself in terms of financial dividends as well. With the local media continuously force-feeding selective leaks of federal police investigations into Petrobras' activities in front-page headlines for several months, speculative market movements predictably became more and more frequent.

But the controlling shareholders' aloofness meant that short-run changes in the company's stock-market value were often passively accepted as though truly reflecting the actual value of Petrobras' assets. Left unchecked, this recurring speculative markdown of Petrobras stock value led to a deterioration of the overall creditworthiness of the company and, in some cases, actually created credit constraints where none previously existed.

Political squeamishness in the face of the daily flurry of accusations was taken a step further, however. In a bid to be perceived as being stricter and "cleaner" with regard to Petrobras' finances than the media and the prosecuting authorities themselves ever demanded, the government then froze the company's large investment plans. The knock-on effect of the sizeable reduction in its orders upon the oil giant's extensive supply chain severely hit several different economic sectors, shipbuilding not the least among them.[9]

The steep fall in popularity resulting from the Petrobras "scandals", as well as poor management of party alliances, both in Congress and within the Cabinet, has pushed the Rousseff administration into a singularly fragile political position.

This, in turn, has made it easier to shift economic policy toward austerity even further, as it has accentuated a trend, already dominant among PT party leaders after the October 2014 elections, to do whatever can be done to meet "market" (i.e., big private business groups, large private banks, and the media) demands.

[9] Originally estimated at US$ 44 billion, Petrobras' investments for 2015 were pared down to US$ 31 billion, while the new business plan, announced in late June, has cut investments for the 2015-2019 period by more than 40%, from US$ 221 billion to US$ 130 billion.

The job losses and business slump brought about by these austerity policies then took their own toll in further eroding the government's popular support, thus closing the cycle.

Should the incumbent PT face next year's municipal elections still being associated with recession, unemployment and corruption by voters, the outlook suggested by current approval ratings (around 10%) is a rather bleak one.

The Turning of the Tide: New Priorities, both Foreign and Domestic

One should not hastily qualify the current Brazilian government's economic policies as having failed. It may well be true that the results of these policies fall short of the mark when judged by the frequent *pro forma* political statements of unswerving adherence to the tenets of cherished orthodox doctrine. But if, on the other hand, the efficacy of adopted policies is gauged in terms of the objectives spelled out by the incumbent Minister of Finance, then one must admit that the economic policies have been rather successful.

First, the unemployment rate shot up quickly, reaching 7.9% by official figures in November,[10] and thus increasing the available pool of labour identified as being an obstacle to future growth. Additionally, inflation has also risen, having reached 10.48% – the highest in more than two decades and far above the upper bound of the official inflation target for the year, set at 6.5 percent.[11]

Since the actual function of higher inflation is to lower real wages, long considered by the government and in Brazilian business circles to have caused excessive "cost pressure" in the previous decade, no attempt was made to prevent a major currency devaluation and increased public utility prices throughout 2015. If anything, they were officially celebrated by local ministers as representing a "correction of the imbalance of relative prices". The combined effect of those two results – growing unemployment and tumbling real wages – is reflected in the reduction of 10.4% in the total wage bill of the Brazilian economy in real terms over the last twelve months.

Ordinary Brazilians are already having to deal with the declining efficiency of public services. In a move not usually listed among the technical requirements of fiscal austerity, the government has been withholding payments to private

[10] According University of Sao Paulo researcher H. Zylberstajn, were it not for the unusually high number of unemployed people who stopped looking for jobs last month (around 170,000), the level of unemployment would have reached 8.5 percent.

[11] The Brazilian Central Bank "suspended" the inflation target for 2015, after having remained below its upper limit for 10 years in a row.

suppliers of public institutions, such as public hospitals and universities. Despite causing the supply of goods and services to be interrupted, thus hurting the quality of public services used mostly by the lower-paid segments of the population, this artifice does not result in any improvement in fiscal numbers, by international accounting standards.

Such policies, as well as the daily parade of "scandals" and indictments amplified by the constant media glare, help to create a widespread consensus that the state is inefficient and corrupt, paving the way for the adoption of wider-reaching and more permanent measures gleaned from the neoliberal primer.

Curiously, former President Lula and the PT led a partially successful opposition to both macroeconomic austerity and neoliberal reforms during the 1990s, and this helped Brazil escape some of the worst impacts of neoliberalism in Latin America. Twenty years later the wheel has come full circle.

Presently, a PT-led government is promoting the full gamut of austerity measures and sponsoring legislation that reduces labour rights. The priority assigned to this political agenda was underlined by the fact that the first bill sent to Congress in President Rousseff's second term (on the eve of her inauguration) simultaneously curtailed access to unemployment insurance, pay compensation for laid-out workers, benefits for employees on sick leave and widows' pensions.

The legislative priorities of President Rousseff's government are not restricted to labour rights and "fiscal adjustment" (the local euphemism of choice) measures. Changing the constitution to make public security a federal issue and the approval of a federal Terrorism Act that innovates jurisprudence by allowing the possibility of damage to property being considered an act of terrorism in and of itself, also kept government whips busy in 2015.[12]

Brazilian priorities in foreign policy have also been visibly altered. Affirming regional leadership and expanding the country's presence in high-growth emerging markets in Latin America and Africa was at the centre of Brazilian strategy for a decade. Between 2003 and 2010, the country pushed for new regional institutions and cooperation mechanisms, opened up 19 embassies in Africa alone and multiplied trade finance tenfold.

Now these themes have little room either in government actions or even in official discourse. Under President Rousseff Mercosur is increasingly treated as an encumbrance rather than an asset, while already sparse official visits to Africa

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[12] A UN Special Report issued a warning that the text of the new Brazilian Terrorism Act is "too broadly drafted and may unduly restrict fundamental freedoms" See http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=16709&LangID=E

ceased to take place two years ago. More importantly, in the wake of a protracted and largely unopposed media campaign that sought to portray official support for exports as potentially corrupt, trade finance was also cut in half from 2014's below-average levels. Brazil's modest market share as a supplier of manufactured goods, and especially of engineering services, for emerging economies is already being reduced and is expected to recede further in upcoming years.

The new foreign policy topics to merit governmental attention are "regulatory convergence" with the US and Europe, and climate change (the former foreign minister was chosen on the basis of his expertise in the subject). Concrete ambitions of the new international agenda are to conclude a agriculture-for-services tariff agreement with the EU (kicked off in the 1990's by the previous government), with the avowed aim of "integrating Brazilian economy into global supply chains"; to pave the way for future membership of the OECD, joining Chile and Mexico at the organisation's lower table; and a rapprochement with the United States.

This last objective seems to be the one more readily attainable, as can be inferred by the degree of affability witnessed during President Rousseff's state visit last June. All symbolic gestures were duly observed, including meetings in Wall Street as well as with Republican Party icons such as Henry Kissinger, Condoleezza Rice and Rupert Murdoch – and even including an off-the-cuff remark by the Minister for Trade and Industry stating that a free-trade agreement with the US, which the PT fought steadfastly against in the 1990's, is "an aspiration" of the present Brazilian government.

Such niceties aside, more structural reasons guarantee the ultimate success of President Rousseff's goal of boosting ties with the US. Between Brazil stepping back from its would-be leadership role at regional level and withdrawing voluntarily from the competition for high-growth emerging markets, on one side, and the country's new-found zeal for international cooperation on corruption and counterterrorism matters,[13] on the other, there is very little news coming from Brasilia these days that is not good news for Washington.

The Tunnel at the End of the Light: Present Predicaments and Prospects

Faced with the government's unenviable track record of deepening recession, political beleaguerment and dwindling popularity, a detached observer could be excused for assuming that some earnest thinking about a new course of action

[13] Several of the Petrobras investigations mentioned above were carried out in close cooperation with US law-enforcement agencies and with the DoJ.

must be taking place in Brasilia right about now. In particular, the remarkable set of negative economic indicators being steadily produced each month in what has now become a context of stagflation, might have prompted at least some mainstream economists or even a single government official to consider proposing possible countercyclical measures.

In reality, however, it has become commonplace for mainstream economic commentators in Brazil to attribute all of the country's present economic predicaments irresponsible overspending in general, and to the post-Lehman countercyclical policies, in particular.

An illustration is provided by a well-known former minister, and an informal advisor to former President Lula, who, confronted by the collapse of investment (both public and private) in Brazil, has recently equated proposals to do away with contractionary policies with "magical thinking". As the Brazil faces its worst economic slump in 25 years, his prescribed strategy to restore growth is "to create the expectation of growth", to find some way to "stimulate the animal spirits" of entrepreneurs. Not a self-evident winner, on the face it.

The fact remains that new measures that reaffirm and reinforce President Rousseff's chosen neoliberal policies are regularly being announced. Although the initial fiscal targets for 2015 had to be revised down on more than one occasion in view of the drastic reduction in fiscal revenues brought about by the decline in overall economic activity, targeting the size of gross government debt and achieving a balanced primary budget remain the official priorities.

It could be argued that scarcely anyone outside of the IMF would advise tightening the fiscal screw further in the middle of a recession of historic magnitude.[14] But although the IMF's self-given licence for ignoring the lessons of history has been lately emulated by quite a few Brazilian government officials and the usual entourage of obliging economists, the over-the-top orthodoxy of their discourse does not square easily with the reality of prevailing macroeconomic conditions.

Although neither government officials nor local media "expert" commentators are keen on reminding public opinion of this fact, even at its 2015 peak Brazil's gross public debt is below 70% of GDP, which is lower than that of austere

[14] A fair-minded early reviewer pointed out that in the G-20 meeting of June 2010, as the US was still wading out of the recession mire and the EU was slowly wading in, the BIS stated that countries should not wait recovery to cut budget deficits "decisively" while warning that, unless interest rates were raised soon, "distortions" would be created. Neither the risk of said countries relapsing (or plunging) into recession, nor the cost of raising rates of public debt were cited.

Germany, and significantly lower than that of the US or the UK, both of which are hovering around the 120% of GDP mark[15].

More importantly, all the talk concerning fiscal adjustment and the reduction of gross public debt starts to sound extremely impractical when, in addition to plummeting government revenues (an effect that was curiously absent from nearly all mainstream analytical exercises in the country), both the cost and size of government debt are inflated by steep interest-rate increases.[16]

Still, if public announcements and commitments being made by the PT-led government are any guide, the prospects for 2016 are of more of the same. More spending and public investment cuts, social security and pensions reform, even hitherto untouchable social benefits (such as the *bolsa-familia* programme) – all have been openly placed in the crosshairs of the Brazilian austerity agenda.

Such extreme persistence in a course of action in the face of deteriorating results, and of growing discontent among both business and labour, goes some way towards explaining why the current Brazilian government has the lowest popular approval ratings since the early 1990's.

The fact that the political and economic problems facing them are nearly entirely self-inflicted, however, makes Brazil a sobering lesson for other developing countries. In such countries, any development project that aims at the political and economic enfranchisement of those at the lower rungs of society, especially its underclass, is always going to be contentious. This is particularly true where not only income but also property distribution is strongly imbalanced, as is the case in Brazil.

To succeed, political leaders have to be willing to make alliances and concessions, but must never do so at the cost of their primary goals and basic principles. The idea that, in this sort of context, it is possible for one to curry favour with traditional sectors whose previous dominance is being checked by back-pedalling on one's main strategy and "temporarily" adopting their political agenda and priorities is altogether unrealistic.

In transformational situations such as these, gainful compromises can only be entered into from a position of relative strength, which necessarily involves keeping those that benefit the most from the changes being promoted politically mobilised; and, above all, ensuring the continuity of job creation and wealth generation, even if, on occasion, at a slower pace.

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[15] The measurements in all cases refer to total government gross debt, at both central and local levels.
[16] Since January 2014, the Brazilian Central Bank raised its policy rate (Selic) by nothing less than 425 basis points – 300 bps of which over the last twelve months.

But for all the record-breaking recession, wage loss and unemployment figures, the current political crisis is less likely to end dramatically for President Rousseff than it did for previous left-leaning presidents Vargas (driven to suicide in 1954) and Goulart (forced to flee the country in 1964).

For one thing, the Brazilian military, who played a direct role in deposing both men in a Cold War context, have long accepted that the era of coups d'état is over. For another, as the record described above shows, President Rousseff and the PT party leadership have already reneged on their political commitments to labour and surrendered on all key public policy issues without much of a fight, making their removal from office a moot point.