

# Democracy in the Crucible: Impeachment or Coup d'État in Brazil?

Written by Alfredo Saad Filho

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ALFREDO SAAD FILHO, JAN 14 2016

Brazil is the world's sixth largest economy, a prominent member of the G-20 and the BRICS group of large emerging countries, and the host of the 2014 Football World Cup and the 2016 Summer Olympics. The country has also attracted attention since the Presidential election of PT (Workers' Party) candidates Luís Inácio Lula da Silva, in 2002 and 2006, and Dilma Rousseff, in 2010 and 2014. Their administrations have played a leading role in the Latin American 'Pink Tide'; Brazil has also achieved considerable gains in employment and distribution, and was one of the few nations where social spending rose in the current 'Age of Neoliberalism'.

Yet, Brazil finds itself enmeshed in the worst economic contraction in a generation, coupled with a political deadlock fuelled by a parade of corruption scandals. A particularly grotesque one has engulfed the Speaker of the Chamber of Deputies, who is struggling for his political life while, simultaneously, leading impeachment procedures against President Rousseff. Even if her administration survives, Rousseff is unlikely to regain the ability to pass legislation through a bitterly hostile Congress, further impairing the country's economic prospects.

This is calamitous for Brazil, and potentially lethal for the PT. At the end of his second administration, Lula enjoyed approval rates bordering on 90 per cent, and Dilma Rousseff's approvals hovered around 70 per cent until 2013. The collapse has been relentless: her popularity is now stuck in single digits. There is profound cross-class discontent, a mass-based political right has emerged for the first time since the 1960s, and the mainstream media has been promoting a vicious campaign against the PT and anything approaching even social democracy. If they succeed, there may be a long-term shift to the right in the largest country in Latin America.

### Lula's search for political hegemony

The forces driving today's economic and political crises can be traced back to the incompatibility between two transitions taking place in last 30 years: the *political transition* from military rule to democracy, that was sealed by the progressive Constitution of 1988, and the *economic transition* from import-substitution industrialisation to neoliberalism, that was consolidated by the macroeconomic policy 'tripod' imposed in 1999, including inflation targeting and Central Bank independence, liberalisation of capital flows, and permanently contractionary fiscal and monetary policies.

The Constitution is socially inclusive; it has democratised and decentralised power and mandated the creation of a Swedish-style welfare state, including extensive social rights and income guarantees. In contrast, neoliberalism promotes the interests of internationalised capital in general and finance in particular, concentrates economic and political power and imposes an exclusionary democracy cloaked as 'macroeconomic stability'. The friction between incompatible principles of social organisation – democracy or neoliberalism – helps to explain both the election of Lula, and the destruction of his successor.

Correspondingly, for 25 years Brazilian political life has been structured by the conflict between the social-democratic PT and the hardline neoliberal Social Democratic Party, PSDB. In Poulantzian fashion, these parties are closely aligned with two fractions of capital. Domestic capital is based primarily on construction, shipbuilding, the capital

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goods industry, agribusiness and national banks. They have supported the PT in exchange for subsidised state finance and institutional protection supporting their complex relationship of competition and co-operation with global capital. Internationalised capital includes foreign firms and their associates across finance, insurance, globally-integrated manufacturing and the mainstream media which, although overwhelmingly owned by domestic capital, is committed to neoliberalism and rejects the notion of a 'national' development strategy. This group is represented by the PSDB.

The PT administrations promoted the interests of domestic capital and the workers with considerable success during the period of prosperity afforded by the commodity boom pulled by the USA and, subsequently, by China. For example, these administrations supported the expansion of the oil chain through the state-owned Petrobras, the country's largest firm; the shipbuilding industry recovered from the disaster imposed in the 1990s by the PSDB administration of F.H. Cardoso that reduced it to 5,000 workers. Under Lula, profits ballooned and employment in the shipyards rose to 105,000. The PT administrations reduced real interest rates from a peak of 22 per cent, under Cardoso, to 3 per cent, under Dilma, and dramatically expanded subsidised finance through the Brazilian Development Bank (BNDES), that became the largest development bank in the world.

These governments also benefitted the organised workers and the poor, both indirectly through the expansion of the economy, and directly through the government's wage, employment and transfer policies. The minimum wage rose by 72 per cent in real terms between 2005 and 2012, and social provision increased through pensions, benefits and the flagship *Bolsa Família* cash transfer programme. Economic prosperity and a supportive administration also facilitated social struggles. There were around 300 strikes in 2003, and less than 20 per cent of collective actions led to real wage gains; in 2013 there were 2,000 strikes, and 95 per cent of agreements increased real wages.

Yet social and economic achievements did not create a stable political hegemony. For example, the PT and its close allies never controlled more than one-third of seats in Congress. Instead, they always depended on broad alliances with unreliable parties and opportunistic groups in order to pass legislation. In the meantime, the mainstream media remained ravenously hostile to Lula and Dilma, often orchestrating the parliamentary opposition. The Judiciary is also firmly aligned with the political right. Finally, corruption remains an essential link between politics and business life. Thievery and underhand transfers supplement the machinery of the state, democratic processes and the institutional modalities of representation of the elite. It is only natural that, in the 1990s, the PT decided that in order to win elections instead of being honourably defeated, it needed to begin distributing favours to its business supporters, and reward unprincipled politicians in exchange for their support. There is no other way to govern the country. These crooked circumstances were incompatible with political coherence, and the PT was always tripping on the verge of calamity.

The favourable winds of the global commodity boom supported Lula's programme of income distribution, but his economic ambitions were constrained by the neoliberal policy tripod. Fiscal and monetary austerity, large capital movements and incoherent industrial policies overvalued the currency and promoted economic precarisation. Brazil created millions of jobs in the 2000s, but they were mostly precarious and poorly paid posts in urban services. Infrastructure funding was always lagging, creating a yawning gap between rising consumption levels within the household and the provision of public goods and services, especially transport, water, sanitation, security, schooling and health. Mass frustration crept in. In the meantime, the upper middle classes felt increasingly alienated from the government, because of their exclusion from power and the feeling that 'their' taxes were funding feckless hordes and arrogant arrivistes, who insisted on their right of admission to shopping centres, airports and private clinics.

Brazil recovered rapidly from the global crisis through bold monetary and fiscal policies. However, the scope for success was limited because growth was driven by commodity exports, for which demand was bound to decline, backed up by fickle capital inflows. Since the economy is permanently hampered by the neoliberal policy tripod, if the external engine splutters domestic growth *will falter*, regardless of fiscal tweaks or bombastic attacks on corruption. If, in addition, the government is isolated politically, demoralised, and beset by an investment strike, the economy must fall off a cliff. Let us see how it happened.

**The cracks are showing: Dilma's fall, and the emboldening of the Right**

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Dilma Rousseff was never a politician, nor was she a member of the PT until recently. She was a manager and a fixer, and was offered the Ministry of Energy in 2003. There, she oversaw the massive expansion of the country's oil industry. She subsequently became President Lula's Chief of Staff. Dilma succeeded in both posts and Lula, at the height of his powers, anointed her PT candidate to his succession.

Once elected, Dilma tilted economic policy further away from neoliberalism. She introduced more expansionary fiscal policies, lowered interest rates, imposed marginal capital controls, funded additional state investment, expanded transfers and intervened in multiple sectors. The outcome was ruinous. The government expected the global crisis to peter out but, instead, it deepened. Quantitative easing in the advanced economies wreaked havoc with the Brazilian *real*; the media intensified its attacks, and domestic capital refused to invest since it could neither control the government nor claim easy profits. The current account deficit ballooned, and the economy tanked. The government lost the ability to conciliate conflicting interests. The urban poor rebelled in 2013, but their protests were hijacked by the right-wing media and a bitterly hostile upper middle class.

Dilma campaigned for re-election with a left-wing message, warning against the neoliberal adjustment planned by her PSDB rival. However, once victorious, Dilma appointed as Finance Minister a banker connected to the PSDB, and gave him free rein to restore the government's 'credibility' through a sharp fiscal and monetary contraction. The left cried foul, and Rousseff's working class supporters felt betrayed. The retraction of demand during a protracted global crisis triggered the collapse of investment. Output nose-dived and unemployment mounted. The economy contracted 3.5 per cent in 2015, and 2016 can be just as bad. The gains from the 2000s are being wiped out as we speak. International capital is waiting for Dilma's fall; domestic capital is cowering, and the formal sector workers are dumbfounded by their losses. The informal workers suffer heavily, through the evaporation of opportunities for income, employment, education and social advancement.

The media, the (PSDB-controlled) Federal Police and the Judiciary tightened the screws in 2014, and successive corruption scandals have come to light. The Federal Police's ongoing *Lava Jato* operation has unveiled a large corruption network centred on Petrobras and including cartels, fraud and illegal funding for several parties. Blanket media coverage focusing on the PT alone badly dented the government's credibility. Several politicians and party cadres were jailed, followed by some of the country's most prominent businessmen, but only those supporting the government. A two-pronged campaign was launched to restore the right to power regardless of the elections. On the one hand, the media suggested that the PT was uniquely corrupt and corrupting, and that the businesses aligned with it had violated the law and perverted democracy. On the other hand, the police and the judicial system have sought to throttle the party. The message was clear: anyone funding the PT illegally will be imprisoned; their companies will be destroyed and the shareholders will pay dearly. Having survived for years through the favours of the rich at the expense of the militancy of the poor, the PT was in a bind. It had no explanation to offer, no programme to advance, and no strategy to climb out of the hole.

The attack against Rousseff and the PT forged a right-wing mass opposition demanding the 'end of corruption' and 'Dilma's impeachment', even though there is no legal justification for it. Examination of the opposition's grievances leads to a laundry list of unfocused and conflicting dissatisfactions articulated by expletives rather than logic: *the demand for the President's impeachment has no legal substance*. The process is an attempted political *coup d'état*: the PSDB and the media refuse to accept the outcome of the 2014 elections and they have decided to depose the President and restore the hegemony of globalised neoliberalism regardless of Constitutional niceties.

At this point in time, it is impossible to predict whether or not Dilma will be impeached or forced to resign. Underpinning this uncertainty is the impasse between social forces defending an inclusive Constitution and those imposing an excluding neoliberal system of accumulation. These disputes emerge through a dysfunctional political system, a distorted economy and a regressive social structure: a democracy without legitimate sources of party funds, a hollowed out manufacturing base supported by large-scale agribusiness, an economy without prospects of generating quality jobs for its workers or capacity to distribute income in a fiscally sustainable manner, and élites clinging to their privileges and resenting any attempt to build an inclusive citizenship. A political hegemony resolving these impasses will not be built easily or rapidly. The agony is not over. The end is not even close.

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## About the author:

**Alfredo Saad Filho** is Professor of Political Economy at the Department of Development Studies, SOAS University of London. His research interests include the political economy of neoliberalism, industrial policy, alternative macroeconomic policies, and the labour theory of value and its applications.