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Pedro Romero Marques

Ensaios sobre a dinâmica do conflito distributivo brasileiro (2000-2020)

Essays on the dynamics of the Brazilian distributive conflict (2000-2020)

São Paulo
2022

Prof. Dr. Carlos Gilberto Carlotti Júnior
Reitor da Universidade de São Paulo

Profa. Dra. Maria Dolores Montoya Diaz
Diretora da Faculdade de Economia, Administração, Contabilidade e Atuária

Prof. Dr. Claudio Ribeiro de Lucinda
Chefe do Departamento de Economia

Prof. Dr. Wilfredo Fernando Leiva Maldonado
Coordenador do Programa de Pós-Graduação em Economia

Pedro Romero Marques

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Orientador: Prof. Dr. Fernando Monteiro Rugitsky

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RESUMO

Este trabalho consiste em três ensaios sobre a dinâmica do conflito distributivo brasileiro nas duas primeiras décadas do século XXI. A partir de uma tradição crítica influenciada pela contribuição de Michal Kalecki sobre os aspectos políticos do pleno emprego, investiga-se as interações entre a recente trajetória de crescimento brasileiro e a relação entre capital e trabalho, considerando as mudanças na distribuição da renda. No primeiro ensaio, "*Rentiers and distributive conflict in Brazil (2000-2019)*", estima-se uma distribuição funcional da renda que é expandida para considerar, para além dos salários, lucros e renda do governo, a parcela associada ao rentismo. Indica-se que a renda dos rentistas, ainda que tenha apresentado estabilidade durante o período, mudou significativamente sua composição graças ao aumento da participação dos juros pagos pelas famílias. Os resultados sublinham o papel da expropriação financeira (direcionamento dos salários para o pagamento de juros) e sugerem uma trajetória alternativa para a parcela de salários na renda durante o período, indicando outras possibilidades para a análise do conflito distributivo. No segundo ensaio, "*Fiscal Policy and distributive conflict in Brazil* (2000-2019)" o foco reside no papel redistributivo do Estado brasileiro. Estima-se, assim, o salário social líquido (a contribuição líquida da política fiscal para a classe trabalhadora), cuja trajetória foi de aumento entre 2004 e 2017, principalmente graças ao crescimento dos gastos sociais. A composição do salário social líquido sugere, ainda, que seu crescimento tem relação com a ativação de mecanismos institucionais capazes de ampliar o efeito redistributivo da política fiscal no longo prazo. Finalmente, o terceiro ensaio é intitulado "*Toward a critical appraisal of the Growth Model Perspective: the political business cycle in Brazil (2003-2016)*" e propõe uma avaliação crítica de parte da literatura em economia política comparada associada à *Growth Model Perspective*. Propõe-se, como contribuição ao debate, uma reinterpretação do modelo de crescimento brasileiro sob uma perspectiva Kaleckiana, situando o conflito distributivo no centro da análise. O ensaio sugere que a relação entre os motores do crescimento brasileiro e seus determinantes sócio-políticos contribuiu tanto para a formação quanto para o esgotamento do modelo de crescimento brasileiro das últimas décadas.

Palavras-chave: economia política, distribuição de renda, desenvolvimento econômico

ABSTRACT

This work consists of three essays on the dynamics of the distributive conflict in Brazil in the first two decades of the 21st century. Following a critical approach influenced by Michal Kalecki's political aspects of full employment, these essays investigate how Brazil's recent growth trajectory affected the relationship between labour and capital via changes in income distribution. It entails analysing how it contributed to the economic and political crises that burst in the mid-2010s. The first essay, "Rentiers and distributive conflict in Brazil (2000-2019)", estimates an expanded functional income distribution that considers the share appropriated by rentiers besides wages, profits, and government income. It indicates that despite being relatively stable during the period, rentier income has significantly changed its composition due to the increasing importance of interest income paid by the household sector. The results stress the role of financial expropriation (interest payments out of wage income) in changing the trend in wage share, suggesting an alternative interpretation of the distributive conflict. The second essay, "Fiscal policy and distributive conflict in Brazil (2000-2019)", aims at evaluating the redistributive role of the Brazilian state by estimating the net social wage (the net contribution of fiscal policy to the working class) for the same period. Results show that the net social wage has increased from 2004 to 2017, mainly due to rising social spending. Its composition suggests that the upward trend resulted from activating existing institutional mechanisms that promote redistribution, producing a resilient pro-labour orientation for the fiscal policy. Finally, the third essay is intituled "Toward a critical appraisal of the Growth Model Perspective: the political business cycle in Brazil (2003-2016)". It addresses contemporary trends in comparative political economy by offering a critical assessment of the Growth Model Perspective. It contributes to the debate by reconsidering Brazil's growth model from a Kaleckian viewpoint, which puts the distributive conflict at the centre of the nexus between the economic and political foundations of growth models. By relating the trajectory of redistributive growth to the rise and fall of the Workers' Party (2003-2016), the essay elaborates on how growth drivers have been related to socio-political determinants and concludes that this relationship has influenced both the formation and the exhaustion of Brazil's recent growth model.

Keywords: political economy, income distribution, economic development

LISTA DE TABELAS

LISTA DE FIGURAS

SUMÁRIO

1 INTRODUÇÃO

Esta introdução procura apresentar o contexto da presente pesquisa e, assim, indicar o fio condutor dos argumentos aqui desenvolvidos. Isso se faz necessário graças ao formato ainda pouco usual deste documento: por mais que se refira a um tema e a um objeto de pesquisa específicos, esta tese encontra-se organizada no formato de três ensaios independentes, todos eles redigidos em língua inglesa. Por um lado, é certo que este modelo de apresentação é benéfico à continuidade da pesquisa no sentido de incentivar sua publicação. Por outro, todavia, é preciso reconhecer que ele apresenta uma série de limitações: há espaço limitado para reflexões teóricas, há dificuldades associadas à escrita e impedimentos à leitura em língua estrangeira, há também eventuais repetições necessárias ao contexto de cada artigo.[1] Considerando este último ponto, os próximos parágrafos desta introdução limitam-se apenas à contextualização do problema de pesquisa tratado ao longo dos três ensaios. Para tanto, é preciso definir dois pontos de partida, um relacionado ao objeto de análise e o outro relacionado ao arcabouço teórico utilizado.

Com relação ao objeto, tem-se que esta pesquisa é direcionada para o estudo da trajetória de crescimento econômico e distribuição de renda que ocorreu no Brasil ao longo das duas primeiras décadas do século XXI. Ainda que sob diferentes perspectivas, diversos esforços têm convergido em caracterizar parte deste período como um excepcional ciclo de crescimento econômico redistributivo (Barbosa-Filho, 2018; Serrano & Summa, 2018; Loureiro, 2018; 2019). Por um lado, destaca-se como fundamento deste ciclo as condições internacionais favoráveis que permitiram à economia brasileira não apenas uma participação maior no mercado global, mas também a possibilidade de reduzir sua fragilidade relacionada à inserção neste mercado (Biancarelli, Rosa & Vergnhanini, 2017). Por outro, destaca-se o papel cumprido pela demanda doméstica, em especial o consumo das famílias, no sustento da trajetória de crescimento econômico experienciada (Serrano & Summa, 2015; Rossi, Mello & Bastos, 2020). Nessa linha, é comum o reconhecimento da centralidade de algumas políticas governamentais específicas, por exemplo, a expansão das transferências de renda aos mais pobres e a ampliação do acesso ao crédito (Lavinas, 2017).

Ainda que, em se tratando de uma economia periférica, um longo ciclo de crescimento seja significativo por si só, a excepcionalidade das últimas duas décadas no Brasil se deve fundamentalmente à redução histórica da pobreza e da desigualdade, por mais que estudos

[1] Por exemplo, todas as citações de textos originalmente escritos em português foram traduzidas livremente para inglês pelo autor desta tese.

recentes apontem para uma estabilidade da concentração de renda e riqueza no topo da pirâmide social brasileira (Morgan, 2017; Medeiros, Souza & Castro, 2015). Como apontam outros esforços, as transferências de renda de fato cumpriram um papel importante para este processo, mas parte dos efeitos obtidos se devem à contemplação das reinvindicações tradicionalmente associadas aos trabalhadores organizados: valorização do salário-mínimo, incentivo ao emprego formal, acesso à seguridade social e à provisão universal de saúde e educação (Kerstenetzky & Machado, 2018; Silveira & Passos, 2017; Silveira; Passos, Silva & Palomo, 2020).

Nesse sentido, há vários indícios que apontam para o aumento das tensões distributivas durante este ciclo de crescimento, o que permite supor que as contradições econômicas podem ter produzido efeitos sobre a dinâmica da política institucional (Dweck & Teixeira, 2017; Serrano & Summa, 2018; Marquetti, Hoff & Miebach, 2020; Singer, 2020; Martins & Rugitsky, 2021). De fato, na medida em que a crise econômica ficou evidente, em meados dos anos 2010, foi notável o delineamento de uma crise político-institucional. Esta levou, em 2016, à aprovação pelo Congresso Nacional da interrupção do mandato presidencial de Dilma Rousseff, encerrando mais de uma década de administrações identificadas com as demandas da classe trabalhadora (Carvalho, 2018; Singer, 2018). Anos depois dessa ruptura, é possível supor que esta reação política se estendia também ao modelo de crescimento então vigente. Não surpreende, portanto, que pesquisas recentes venham indicando a reversão da trajetória dos níveis de pobreza e desigualdade brasileiros desde então (Souza, Hecksher & Osorio, 2022).

É diante deste cenário que se podem expressar a pergunta e a hipótese desta pesquisa, que são qualificadas, estendidas e discutidas ao longo dos três ensaios. Sob uma perspectiva fundamentada na economia política, o questionamento geral se refere à identificação de como o crescimento com distribuição de renda contribuiu para reposicionar a relação entre capital e trabalho no Brasil. Neste caso, a hipótese de trabalho refere-se à possibilidade de intensificação do conflito distributivo brasileiro como resultado da excepcionalidade do ciclo, o que teria levado as contradições da esfera econômica à manifestação no âmbito da política institucional.

Com isso, finalmente, é possível apresentar o segundo ponto de partida mencionado, que se insere no âmbito do arcabouço teórico utilizado. Ainda na primeira metade do século XX, o economista polonês Michal Kalecki teorizou acerca das particularidades políticas que poderiam emergir em economias capitalistas que estivessem próximas à situação de pleno emprego. Sob essas condições, Kalecki (1943) sugere que a dinâmica distributiva é capaz de intensificar o conflito entre capital e trabalho, produzindo certa reafirmação das posições de classe: de forma simples, o aumento do poder de barganha dos trabalhadores produz reações ao pleno emprego por parte dos capitalistas. As especificidades da hipótese de Kalecki foram amplamente elaboradas e discutidas, dando origem a alguns programas de pesquisa ancorados na investigação das dinâmicas do conflito distributivo. Este trabalho tem como foco a retomada de alguns desses debates, tendo em vista a potencial convergência entre as reflexões apresentadas e a particularidade do conflito distributivo no Brasil das últimas décadas.

O primeiro ensaio, intulado "*Rentiers and distributive conflict in Brazil (2000-2019)"*, procura abordar o conflito distributivo brasileiro a partir de um arcabouço teórico que propõe a diferenciação entre capitalistas e rentistas (Boddy & Crotty, 1975; Power, Epstein & Abrena, 2003; Epstein & Power, 2003; Esptein & Jayadev, 2005). Propõe, portanto, uma estimação da parcela da renda nacional que é apropriada pelo rentismo e discute, à luz da expansão do endividamento das famílias brasileiras, os efeitos da dinâmica de "expropriação financeira" sobre a distribuição funcional da renda no Brasil (Lapavitsas, 2009). O segundo ensaio intitula-se "*Fiscal policy and distributive conflict in Brazil (2000-2019)"* e tem como objetivo identificar o papel cumprido pelo Estado brasileiro na mediação do conflito distributivo. Parte-se, portanto, da estimação do salário social líquido (a contribuição líquida da política fiscal para a classe trabalhadora), que é utilizado como indicativo da orientação redistributiva da política fiscal. Nesse caso, nota-se um aumento considerável do salário social líquido no Brasil entre 2004 e 2017 motivado pela expansão do gasto social. Essa trajetória sugere uma crescente participação do Estado na garantia da reprodução social da classe trabalhadora e, portanto, contribuindo para a intensificação do conflito distributivo brasileiro.

Finalmente, o terceiro ensaio intitula-se "*Toward a critical appraisal of the Growth Model Perspective: the political business cycle in Brazil (2003-2016)*" e insere-se no debate contemporâneo que aproxima a economia pós-keynesiana das contribuições em economia política comparada. No caso, o ensaio avalia a contribuição dada pela *Growth Model Perspective* e propõe que a análise dos modelos de crescimento poderia se beneficiar da interpretação de Kalecki acerca do ciclo econômico-político, garantindo maior consistência teórica ao programa de pesquisa. Assim, o ensaio retoma as interpretações do modelo de crescimento brasileiro produzidas nesse contexto e o reconsidera a partir do arcabouço mencionado, ressaltando a relação entre motores do crescimento e coalizões de classe a partir da dinâmica colocada pelo conflito distributivo.

2 RENTIERS AND DISTRIBUTIVE CONFLICT IN BRAZIL (2000-2019)[2]

2.1 Introduction

Luis Inácio Lula da Silva, president of Brazil between 2003 and 2010, frequently claims that the banks never made as much money as they did in his governments, resenting the fact that they allegedly turned against his successor, Dilma Rousseff.[3] Indeed, headlines of record profits by banks show up in the press regularly. Such anecdotal evidence point to the fact that the Brazilian economy seems to be a notorious example of the centrality of financial institutions and financial interests in contemporary capitalism.

This characteristic was partly rooted, for a long time, in the extraordinarily high level of interest rates, a common feature among peripheral economies (Bonizzi, 2013). The high policy rate, in particular, aimed at attracting foreign capital flows to an economy that was heavily dependent on external financing (Paulani, 2010). Recently, however, these two salient aspects of the Brazilian economy – the high level of the policy rate and the dependence on foreign capital – went through substantial transformations.

The recent round of monetary easing by the central bank started in October 2016, about two years into one of the most massive recessions of Brazilian history. What made this round of easing unprecedented was its depth: starting with nominal policy rates at 14.25 per cent (close to the average rate observed in the previous two decades), the central bank had taken the policy rate, by December 2017, below 7 percent for the first time since inflation targeting was established in 1999. But it did not stop at that level: the policy rate fell further and, with the onset of the pandemic in 2020, it reached 2 per cent (implying a negative real rate). Brazil seemed to have finally caught up with the recent world pattern of low policy rates. However, it did not last long: as we write, in June 2022, the current ongoing round of monetary tightening, which began in March 2021, has already taken the nominal policy rate back above 13 per cent. This marked volatility should not distract the observer, however, from the long-term decline of the real policy rate, which is clear in the last two decades (see below).

The dependence of the Brazilian economy on foreign capital also underwent a marked change in the same period: the immense accumulation of foreign reserves by the government since the mid-2000s altered its position from net foreign debtor to net foreign creditor and

[2] A version of this article had already been submitted to publication when this final document was published.
[3] See, for instance, a speech he made in March 2016, available at https://tvuol.uol.com.br/video/nunca-ganharam-dinheiro-como-no-meu-mandato-diz-lula-sobre-banqueiros-04020D183666C0C15326.

reduced its dependence on incoming capital flows, even if net external indebtedness still characterizes part of the private sector.[4] In less than a decade, between 2005 and 2012, the foreign reserves held by the Central Bank were multiplied by around seven, from 53.8 to 373.1 billion of dollars (see also Kaltenbrunner & Painceira, 2018, esp. pp. 279-301).

There is a vast literature aimed at coming to grips with these changes and their meaning to the financialised character of capitalist accumulation in Brazil (Kaltenbrunner, 2010, 2015; Dos Santos, 2013; Kaltenbrunner & Painceira, 2015, 2018; Rezende, 2016; Biancarelli, Rosa & Vergnhanini., 2017; Bruno & Caffe, 2017; Bresser-Pereira, Paula & Bruno, 2020; Lavinas, 2017; Lavinas, Bruno & Araújo, 2017). The present research aims to contribute to these efforts by examining a hitherto overlooked question: how these changes have impacted the income distribution and the distributive conflict. To do so, it estimates the trajectory of the share of income related to rentier activities, comparing it to the shares appropriated as profits of enterprise, wages, and government income. One of its main results is bringing to the fore a distributive consequence of rising workers' indebtedness and the commitment of larger shares of wage income to interest payments.

The estimates presented in this article show that, in the last two decades, the rentier income as a share of Brazilian GDP has fluctuated around a slightly increasing trend even though its composition has changed profoundly. In the first decade of the 21st century, rentier income relied on increasing financial expropriation of worker households as property income received from the government declined with falling interest rates in a context of abundant international liquidity. Between 2012 and 2013, however, rentiers exhausted their ability to increase financial expropriation and experienced an income squeeze. With the economic collapse observed in 2015 and 2016, the rentier income share recovered to its recent peaks, on the back of a strong monetary tightening. In the stagnant period that followed, between the recession and the beginning of the pandemic, our measure of rentier income observed a relative decline, but this may have been compensated by an asset price inflation that is not captured by the data used for this research. In short, the Brazilian case thus indicates the plasticity of rentier income and its ability to adapt to changing economic circumstances.

The empirical effort undertaken effectively provides a way to assess an expanded functional distribution of income and, thus, contributes as well to the literature that has been empirically analysing the Brazilian distributive conflict (Serrano & Summa, 2012; Dias &

[4] Such changes in the Brazilian government's external position may be temporary, of course. Moreover, as suggested by Biancarelli, Rosa, and Vergnhanini (2017), the absence of a balance of payments crisis in the recent period does not necessarily mean the overcoming of external vulnerability, given that the economy remains strongly related to international financial and productive cycles.

Ruiz, 2016; Rugitsky, 2017; Saramago, Freitas & Medeiros., 2018). The estimate presented here informs, in contrast to previous research, that the wage share of income – when net of interest payments – has fallen almost continuously between 2001 and 2011. In other words, the present research suggests that a significant part of national income appropriated by workers via real wage gains was redirected towards rentiers via interest payments associated to rising household debt.

The first section, after this introduction, examines the theoretical literature that has examined the role played by rentiers in the distributive conflict. Section 2 turns to the previous empirical literature that estimated rentier shares of income, describing the similarities and differences between the present exercise and the previous ones. Section 3 focuses on the trajectory of the different components of rentier income. Section 4 contextualises the trajectory of the rentier income share in the political economy of the period. Last, section 5 offers concluding remarks.

2.2 Bringing rentiers in: a tripartite distributive conflict

In Part Five of Volume 3 of *Capital*, Marx (1894/1991) examines “the division of profit into interest and profit of enterprise” and how it is associated with the dynamics of class conflict in capitalism (see also van der Pijl, 1984/2012, chap. 1; Pivetti, 1985, 1991; Panico, 1988; Argitis, 2001; Harvey, 2018, Vol. 2, chaps. 5-7). According to him, “this division (…), once it becomes a qualitative one, receives this character of a qualitative division for the total capital and the capitalist class as a whole.” (1894/1991, p.499) The division of the capitalist class opposes money capitalists and functioning capitalists (which include both industrial and commercial capitalists) (Idem, p.472). Marx indicates in this way that different functions performed by capital in its reproduction process (the functions of money capital, productive capital, etc.) tend to be borne by different factions of the capitalist class (the money and the functioning capitalists).

Whereas functioning capitalist is a more elementary category, the definition of money capitalist (which will be henceforth referred to as rentier) is a knotty task, especially considering contemporary forms of capital accumulation. Since rentier activities and sources of income have been historically transformed and diversified (Duménil & Lévy, 2001, p. 583-4, Paulani, 2014, Chesnais, 2016), a general definition could consider both their ties with the traditional forms of financial activity, credit relations, and banking (Hilferding, 1910/1981), and with the reproduction of fictitious capital that characterize contemporary financialisation (Lapavitsas, 2009, 2013, Fine, 2010, 2014)

Whether such an association of different functions of capital with a division of the capitalist class is (still) valid is controversial, especially as financialisation has allegedly blurred the distinction between money and functioning capitalists (Lapavitsas, 2009, pp. 141-143). There is, however, a large literature that focuses on the role of rentiers in class conflicts. Some of these works examined the relations between interclass conflicts (that is, between capitalists and workers) and intraclass conflicts (between the two factions of the capitalist class). In such a way, a tripartite distributive conflict is conceived, resulting in a functional income distribution that has three (rather than the usual two) components: wage, profit of enterprise, and rentier income.

Kalecki (1943) may have been one of the first modern economists to make a suggestion along these lines, in his classic "*Political Aspects of Full Employment". Although his focus is mainly on the conflict between capitalists and workers, he claims that "lasting full employment" tends to coincide with price increases, as capitalists attempt to compensate for rising wages. Such price increases occur at "the disadvantage of small and big *rentiers* and makes them 'boom tired'" (p.329). Interclass conflict overlaps with intraclass conflict, as rising wages and prices are obtained at the expense of the rentier income.

Later literature that followed on Kalecki's footsteps and explored the cyclical nature of the distributive conflict contributed to further specify these connections. Boddy and Crotty (1975), for instance, corroborate Kalecki's suggestion that rentiers stand to lose in the boom, but, for them, the same is true for the functioning capitalists. Kalecki assumed that profits increased with full employment, given higher capacity utilization rates and capitalists ability to pass wage increases along to prices. His main argument was, thus, that capitalists would oppose full employment policies, *despite* the higher profits received. For Boddy and Crotty (1975), however, empirical evidence suggests that profits actually decline in the boom, as Marx had claimed, and the alliance between rentier and functioning capitalists for contractionary policies, predicted by Kalecki, becomes more straightforward given the alignment of their economic interests.

In Epstein's (1996, p. 685) view, "the Kalecki and Boddy-Crotty analyses are each applicable depending on the nature of the exchange rate regime". Under flexible exchange rates, currency depreciation might compensate for functioning capitalists' losses and a profit squeeze becomes less likely. Once profits are preserved, there is no convergence between rentiers and capitalists on supporting government contractionary policies, given that full employment results only in a rentier squeeze. According to him, "rentiers might have sufficient political power to convince the government, and particularly the central bank, to impose restrictive macroeconomic policy, even before industrialists become concerned about the increasing political power of labor". Kalecki's "political business cycle", in this view, could result only from rentiers' pressure. Under fixed exchange rates, however, Boddy and Crotty's (1975) "analysis is more likely to apply".[5]

This literature focused on the effect of inflation on rentier income, paying little attention to the potential influence of the level of the interest rate in these dynamics. The gap was filled by the works of Pivetti (1985, 1991) and Panico (1988), who introduced into a Sraffian framework the tripartite distributive conflict (see Argitis, 2001, p. 461-464, and Lima & Setterfield, 2010, p. 24-26). In contrast to Marx's formulations, this approach assumes that wages are not paid in advance but are instead the residual component of the tripartite distribution. Thus, the relation between interest and profit rates ends up determining the wage share of income. More specifically, by considering exogenous the interest rate, permanent changes in monetary policy, through its impact on the cost of production (borrowing cost is assumed to be part of the cost of production), affect prices and, through them, the profit and wage rates. Contractionary monetary policy tends to rise costs of production, increase prices, and intensify the pressures over real wages (Pivetti, 1985, 1991; Panico, 1988). Argitis (2001), however, stresses that functioning capitalists might be unable to transfer rising costs from higher interest rates to prices, depending on the level of workers' organisation and ability for obtaining rising money wages.

It should be mentioned that Keynes was also concerned about the role played by rentiers, referring to them, in the *General Theory*, as "functionless investors" and famously defending the "euthanasia" of the rentier class (see, on Keynes' views on the issue, Seccarreccia & Lavoie, 2016: p. 207-209). His works on this theme were continued by Post-Keynesian economists working with models of growth and distribution. They have focused on the effects of interest rate changes on accumulation, rentiers' position in the distributive conflict, and dividend payments. Regarding the tripartite distributive conflict, the Post-Keynesian framework is similar to the Kaleckian and Sraffian ones. Depending on the conditions assumed for class disputes (i.e., the degree of wage flexibility or the mark-up elasticity to the interest rate), variations in interest or dividend rates affect nonfinancial firms'

[5] In later work, Epstein (2002/2019) suggests that, in financialised environments, rentiers might be interested in "asset inflation" bubbles and prefer lower interests' rates alongside functioning capitalists.

mark-up and alter income distribution among capitalist factions and workers (Dutt, 1989; Hein, 2007; Hein & Van Treeck, 2007, 2010).

Notwithstanding the several analytical possibilities that arise from the tripartite distribution, it has to be admitted that concretely distinguishing functioning capitalists from rentiers in contemporary capitalism may prove to be more complicated than the literature above suggests (Lapavitsas, 2009, p. 141-143). First, as capital gets more concentrated and centralised, individual capitalists tend to alternate between the two roles, transforming their accumulated profits of enterprise into interest-bearing capital. In this case, "[w]hat initially appears as a relation between class factions is actually internalized within the persona of the individual capitalist," when he embraces "two very distinctive roles." (Harvey, 2018, p. 472) Second, the separation between ownership and management also complicates the clear identification of the two factions, especially due to the growing importance of financial activities and markets (Duménil & Levy, 2001, p.584). Marx himself noted this phenomenon when he analysed the "formation of joint-stock companies," arguing it entailed the "[t]ransformation of the actual functioning capitalist into a mere manager, in charge of other people's capital, and of the capital owner into a mere owner, a mere money capitalist." (Marx, 1894/1991, p. 567). Third, shares of non-financial corporations are increasingly owned by financial institutions (Glyn, 2006, p. 56, Lagoarde-Segot, 2017) and there is a large literature that discusses the engagement of the former in financial activities and their reliance on financial gains (Krippner, 2005, p. 182-186, Fiebiger, 2016, Rabinovich, 2019). It is noteworthy, however, that if part of the above-mentioned processes could blur the frontiers between the two factions, they could also, alternatively, lead to the establishment of a "financial aristocracy," separated from – and opposed to – functioning capitalists (Marx, 1894/1991: 569; for a recent assessment, see Hager, 2015).

It may be plausible to argue, in the light of these processes, that despite the enduring relevance of differentiating capital functions (interest-bearing, industrial, commercial, etc.) in the accumulation process, their embodiment in functioning capitalists and rentiers has become subject to more complex historical specificities. In any case, the identification of how the income flows related to different functions of capital impact the functional distribution of income remains a fruitful endeavour. Besides, the conflict inherent in the division of profit between interest and profit of enterprise might still lead, in specific places and contexts, to the organization of conflicting (and identifiable) factions, consisting of groups predominantly involved in, respectively, commodity production and rentier activities. That is, different functions of capital may underlie, in certain junctures, specific intraclass conflicts, as class struggle is not merely a reflection of class structure but emerges from the interplay of these structures and the historical processes of class formation, being thus contextually contingent (Wood, 1982).

2.3 Data and definitions

Attempts to examine empirically the tripartite distributive conflict are less abundant than the theoretical literature about it. For the present purposes, two lines of research focused on estimating rentier shares of income need to be analysed.[6] The first of them is the one represented by the work of Epstein and his co-authors, which aims to compare intertemporal and international trends of financialisation in OECD countries (Epstein & Power, 2003; Power, Epstein & Abrena, 2003; and Epstein & Jayadev, 2005). Referring to Marx's and Kalecki's views on the rentier class, and considering data limitations, they define rentier income as "profits earned by firms engaged primarily in financial activities plus interest income realized by all nonfinancial non-government resident units, i.e. the rest of the private economy" (Epstein & Jayadev, 2005, p. 50) The rentier income is, then, divided by gross national product (GNP) net of government expenditures to arrive at the rentier share. Although this approach allows for a comparison of the rentier share across countries and through time, it does not lend itself to an examination of the distributive conflict, given that the other shares are not defined.

The second line of research was first proposed by Dünhaupt (2012) and later taken forward by Hein, Dünhaupt, Kulesza, and Alfageme (2017, 2018). Its starting point is precisely the referred limitation of the former approach. In Dünhaupt's (2012, p. 474) words, while Epstein and his co-authors "present a comprehensive picture about the evolution of rentier income shares, they do not provide evidence at whose expense rentiers could increase their share in national income."

This line of research offers, then, an alternative calculation of the rentier share, allowing for comparison of the tripartite distribution among rich economies and within them. In this case, the rentier income is defined as the net property income of households, given that "on balance, corporations and the government pay for the rentier income of the household sector with only a very small positive rentier income of the corporations. Therefore, it is the

[6] Similar efforts, although less connected to this empirical exercise, can be found in Argitis and Pitelis (2006), Duménil and Levy (2001), Kohler, Guschanski and Stockhammer (2019), among others.

private household sector to which the money ultimately goes." (Dünhaupt, 2012, p. 477) As a consequence, the net national income is divided into three parts: retaining earnings of corporations (financial and nonfinancial profit income), net property income (rentier income), and compensation of employees (wage income). By excluding the financial sector's profits and property income from the rentier income, it offers a narrow definition of the rentier share.

The estimates for the rentier share of income in Brazil presented here are based on a definition that combines elements from the two approaches presented above. On the one hand, following Epstein and his co-authors, profit and property income of the financial sector are included in rentier income. On the other, following Dünhaupt, the definition aims at dividing the national income in a way that makes the distributive conflict explicit. Concretely, we divide gross national income into four parts, following national accounting conventions: rentier income, wages, profit of enterprise, and government income. Rentier income (R) is defined as:

$$R = GOS_f + NPI_f + IIR_h \qquad (1)$$

where GOS_f is the gross operating surplus of financial corporations, NPI_f is the net property income received by them, and IIR_h is the interest income received by the households.[7]

Conventionally, wage income (W) is defined as the sum of total employees' compensation (EC) and a share of gross mixed income (GMI_w), calculated in a way proposed by Gollin (2002). In the present research, however, the aim is to account for the redistributive effects that arise from the inclusion of the rentiers. W is, therefore, defined in the following, where IIP_h , which represents the interest income that is paid by households, is subtracted from the sum of the other components:

$$W = EC + GMI_w - IIP_h \qquad (2)$$

Profit of enterprise (P), in its turn, is defined in a way to capture mainly the income of nonfinancial corporations (both gross operating surplus and net property income) and the

[7] "Households" refer to the sum of households and non-profit institutions serving households (NPISH). In the national accounts, property income includes interests, distributed income from corporations, reinvested profits from foreign direct investment, income from investment disbursements, and income from natural resources.

"profit income" appropriated by capitalist households and family firms. Concretely, we estimate it as:

$$P = GOS_p + GMI_p + NPI_p \tag{3}$$

where GOS_p represents the economy's gross operating surplus net of the financial corporations' and the governments' shares (that is, $GOS_p = GOS - GOS_f - GOS_g$). GMI_p is obtained by subtracting from total gross mixed income the amount allocated to wage income ($GMI_p = GMI - GMI_w$). Finally, NPI_P is calculated by subtracting from the economy's net property income the net property income received by financial corporations (NPI_f) and the government (NPI_g), as well as from the net interest income received by households: $NPI_p = NPI - NPI_f - NPI_g - NII_h$, where $NII_h = IIR_h - IIP_h$). NPI_p is usually a negative component.

Last, government income (G) is defined as the sum of the government's gross operating surplus (GOS_g), taxes (net of subsidies) on production and imports (NT), and net property income (NPI_g):

$$G = GOS_g + NT + NPI_g \tag{4}$$

Considering rentier income, wages, profit of enterprise, and government income together – that is, definitions (1) to (4) – one obtains the gross national income (GNI). In other words, the four components of income "exhaust" gross national income. This becomes clear after a simple algebraic manipulation. Adding definitions (1), (2), (3), and (4), results in:

$$R + W + P + G = GOS + GMI + EC + NT + NPI = GNI \tag{5}$$

Then, dividing by GNI, it is possible to obtain the four shares (see also Table 1):

$$\frac{R}{GNI} + \frac{W}{GNI} + \frac{P}{GNI} + \frac{G}{GNI} = 1 \tag{6}$$

Table 1- Expanded functional income distribution

	Rentier income	Wage income	Profit of enterprise	Government Income
EC		EC		
GOS	GOSf		GOS – GOSg – GOSf	GOSg
GMI		GMIw	GMI – GMIw	
NT				NT
NPI	NPIf + IIRh	– IIPh	NPI – NPIf – NPIg + IIPh – IIRh	NPIg

The definition above implicitly considers dividends received by nonfinancial corporations and households as part of profit of enterprise, instead of part of the rentier income, an issue that divides the two lines of research discussed above. Dünhaupt (2012, p. 474) includes dividends in rentier income, claiming that this option is adequate to a "broader perspective regarding financialization," given that dividend income "is certainly a major channel of influence of increasing shareholder power on income distribution." For the purposes at hand, however, including dividend income in the profit of enterprise share seems more appropriate. This is the option of Epstein and Jayadev (2005, p. 49), who claim that "[e]xcluding dividends of nonfinancial firms [from rentier income] thus allows us to talk about possible divergences of interest between finance and industry." In any case, the role played by dividends in the Brazilian case is highlighted in the next section.

The treatment of the interest income of households also deserves justification. The option of considering the interest income received as part of rentier income and deducting interest paid from the wage share is based on the recent literature about the role of workers' indebtedness in contemporary capitalism. Especially, it refers to the recent effort by Marxist literature in conceiving the growing role of consumer finance from a value-theoretic perspective (Dos Santos, 2009; Lapavitsas, 2009; Fine, 2009, 2010; Harvey, 2010; Lattanzi-Silveus, 2019). As argued by Lapavitsas (2009), commercial banks, pushed by the "declining reliance of large corporations on bank-finance," have turned to workers to defend their profits, taking advantage of the latter's increasing involvement "in the mechanisms of finance in order to meet elementary needs, such as housing, education, health, and provision for old age" (p. 126, 129). In his view, this move represents a diversification of the sources of financial profits enabled by financialisation, since the extraction of "financial profit directly out of the personal income of workers" (p. 115) occurs as banks appropriate part of the wages besides a share of surplus value. This phenomenon is defined by Dos Santos (2009) and Lapavitsas (2009) as financial expropriation.

Their formulation was criticised, firstly, because it does not offer a precise theorisation about the relationship between financial expropriation and the determination of the value of labour-power. Secondly, for conceiving the mechanism of financial expropriation as a reminiscence of pre-capitalist usury, suggesting it is not essentially capitalist and therefore cannot be related to contemporary forms of labour exploitation and capital accumulation (Fine, 2009, 2010). Following this argument, Lattanzi-Silveus (2019) finds problematic that Lapavitsas considers that financial expropriation manifests itself independently and alongside exploitation. For him, the growing importance of consumer finance must be understood as "an integral part of modern capitalism" and financial expropriation "can only take place on a broad scale if it helps increase or at least does not decrease the ability of capital to extract surplus value." (p. 107, fn. 18)

If it is true that such a controversy has implication for the analysis of the longer-term consequences of workers' indebtedness in Brazil, the identification of an immediate impact of consumer finance on the wage share via interest payments – which is the focus of this article in this regard – could be accepted by both sides of the dispute. There seems to be a common understanding that "the proximate source of banking profits out of provision of personal finance are the deductions from wages" (Fine, 2009, p.11). In the present article "financial expropriation" refers to this uncontroversial aspect of workers' indebtedness. Data to capture it is limited, especially due to the difficulty of distinguishing, in national accounts, workers' from capitalists' households (Lapavitsas, 2009, p.13). But assuming that most of the interest income received by households accrue to the capitalist ones and that the interest payments are largely made by workers seems to be an adequate approximation.

The present estimation is based on data from the Integrated Economic Accounts of the Brazilian System of National Accounts, which cover the period between 2000 and 2019. Analysing data for two decades, we do not intend to examine the longer-term trends of the functional distribution of income, as the two above-mentioned lines of research do. Our focus, instead, falls on the medium-term distributive conflict and emphasizes cyclical rather than structural aspects. It has to be recognized, however, the intricate relation between these two dimensions.

Regarding the estimation method, at least three general caveats are worth mentioning. First, the separation of households according to paid and received interest income suggests a strict division that neglects the intermediate layers of the class structure. If, on the one hand, these middle classes have been mainly net payers of interest, their incorporation would allow to assess the trajectory of the wage share net of interest payments as a result of the distinct trajectories of the income share of the working classes and the middle classes. As previous research has identified a relative decline of the income of the middle classes during the 2000s economic expansion in Brazil (Figueiredo Santos, 2015; Loureiro, 2020), it may be the case that the fall of the wage share reported in the present article was not entirely borne by workers and that the decline of the latter's share was milder than suggested by our data. On the other hand, if the middle classes have been net receivers of interest payments, then part of the rentier income share here estimated was not appropriated by the capitalist class but by this intermediate layer, tying them to rentier interests, with potentially significant political implications.

The other two caveats refer to the fact that data limitations have not allowed our estimates to capture rentier and government income in their entirety. Regarding the former, we do not take into consideration capital gains, a major source of rentier income especially in periods in which low interest rate lead to asset price inflation. Bringing capital gains in may attenuate the negative impact of falling interest rate on rentier income share. Nevertheless, a simple replication of Epstein and Power's (2003) method of estimating capital gains to Brazilian data suggests that, if included in rentier income, they considerably add volatility to the expanded functional distribution but does not have a clear impact on trends.

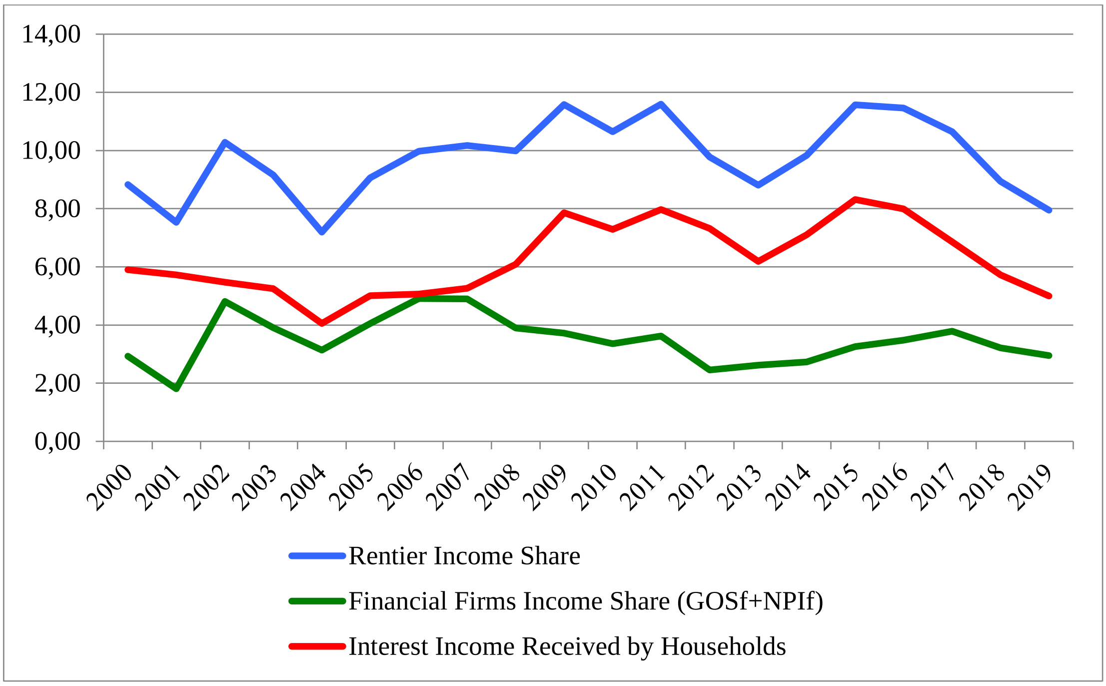
Regarding government income, the approach adopted here does not capture to the full extent the way fiscal policy mediates the distributive conflict, as it incorporates only indirect taxes, leaving out direct taxation. This follows a conventional national accounting distinction between primary income and secondary distribution of income, with indirect taxes being part of the former and direct taxes only of the latter (SNA, 2008: chapters 7-8). A different estimate of functional income distribution, fully incorporating redistributive transfers (including direct taxation), would likely reduce the levels of the income shares flowing to capitalists and increase the one appropriated by workers (Silveira, Passos, Silva & Palomo, 2020; Silveira, Palomo & Carvalho, 2021). There is no reason to expect, however, that the trends would be substantially impacted during the period examined for this article. Future research could certainly explore ways to deal with the issues mentioned in these three caveats.

Finally, to the best of our knowledge, there is only one previous attempt to estimate the rentier share of income in Brazil, undertaken by Bruno and Caffe (2018). The main difference between the present definition and the one adopted by them is that the latter includes the gross operating surplus of the financial sector in the profit share, instead of in the rentier share. In any case, the present paper complements this previous effort, given that the estimations are used for different, if related, purposes.

2.4 Rentier income in Brazil (2000-2019)

Before examining the expanded distributive conflict, it is useful to analyse the trajectory of the rentier income share in more detail, disaggregating its two main components (Figure 1, Table 2): the income appropriated by financial firms (that is, GOSf plus NPIf) and the interest income received by households (IIRh).

Figure 1- Rentier income share and its main components in Brazil (2000-2019)



Source: *Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE).*

Table 2- Rentier income share in Brazil (2000-2019)*

	Rentier Income Share	Disaggregated Rentier Income Share			
		Financial firms			IIRh
		GOSf	NPIf	Total	
2000	8.83	2.54	0.38	2.92	5.90
2001	7.53	2.85	-1.04	1.81	5.73
2002	10.28	3.84	0.97	4.81	5.47
2003	9.16	3.69	0.22	3.91	5.25
2004	7.19	2.92	0.22	3.14	4.05
2005	9.06	3.46	0.59	4.05	5.01
2006	9.98	3.45	1.45	4.91	5.07

2007	10.17	3.63	1.27	4.90	5.27
2008	9.98	3.04	0.86	3.90	6.08
2009	11.58	3.18	0.53	3.72	7.86
2010	10.64	3.42	-0.06	3.36	7.28
2011	11.59	3.17	0.46	3.63	7.97
2012	9.77	3.05	-0.60	2.45	7.33
2013	8.80	2.76	-0.14	2.62	6.18
2014	9.83	3.20	-0.47	2.73	7.10
2015	11.57	3.61	-0.35	3.26	8.31
2016	11.47	4.23	-0.76	3.47	7.99
2017	10.64	3.97	-0.19	3.78	6.86
2018	8.94	3.62	-0.41	3.21	5.73
2019	7.95	3.74	-0.79	2.95	5.00

Period Averages					
2000-2003	8.95	3.23	0.13	3.36	5.59
2004-2007	9.10	3.37	0.88	4.25	4.85
2008-2011	10.95	3.20	0.45	3.65	7.30
2012-2014	9.47	3.00	-0.40	2.60	6.87
2015-2016	11.52	3.92	-0.56	3.37	8.15
2017-2019	9.18	3.78	-0.46	3.31	5.86

* Shares of gross national income.

Source: *Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.*

Legend: *GOSf (gross operating surplus of the financial firms); NPIf (net property income of the financial firms); IIRh (interest income received by households and non-profit institutions serving households)*

2.4.1 Financial firms

Oliveira (2016, p. 244) has recently suggested that “a striking characteristic of the Brazilian banking system” is the capacity of its private firms to earn high profits in different contexts, that is, both in periods of prosperity and crisis. However, he argues that the gradual decline of real interest rates increased the impact of the business cycles on the largest banks, as it raised “the importance of revenues from credit operations” (Oliveira, 2017, p. 8; see also Freitas & Cagnin, 2014, and Santos, 2016, for recent empirical analyses of the Brazilian financial sector). As can be seen in Figure 1, after a volatile period in the early 2000s, the share of income appropriated by financial firms halved between 2007 and 2012, declining from 4.90 to 2.45 per cent, as the average annual real policy rate fell continuously – from

12.64 per cent, in 2005, to 2.17, in 2013 (see Table 5, below) – and, between 2012 and 2013, interest rate spreads were forced downward deliberately by the government (resorting to the competitive pressure exerted by the public banks).[8]

The trajectory of the share of income appropriated by financial firms since 2012 also seems to be closely connected to the real policy rate. Both recover from the troughs in, respectively, 2012 and 2013, but are not able to restore the levels observed in the early 2000s. The financial firms' income share peaks at 3.78 in 2017, whereas the real policy rate recovers to 7.28 in 2016. Then, between 2017 and 2019, they drift downward, once more in parallel fashion. Evidence from econometric exercises corroborates the interpretation that the policy rate plays a significant role in explaining financial firms' income, finding a direct impact of the policy rate on Brazilian banks' return on equity and return on assets (Bittencourt, Bressan, Goulart, Bressan, Costa & Lamounier, 2017).

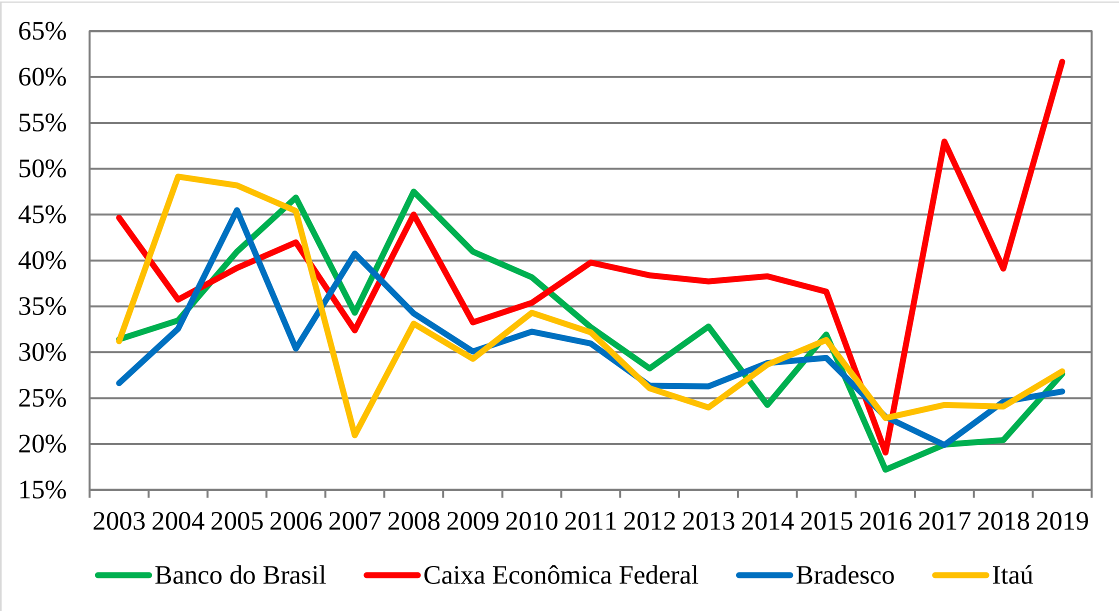
The importance of the trajectory of the interest rates to the income appropriated by financial firms should not be underestimated. But a more disaggregated examination of the data indicates that it does not tell the whole story and brings the trajectory of dividends to the fore.[9] Between 2000 and 2007, financial firms received, on average, more dividends than they paid out. These positive net dividends constituted a minor part of the financial firms' income share, but it was a positive part nonetheless. From 2008 onwards, however, the level of dividends paid increases markedly and net dividends become negative: it averages -0.47 per cent of gross national income between 2008 and 2011, -1.12 between 2012 and 2014, -1.57 during the crisis years of 2015 and 2016, and finally -1.83 between 2017 and 2019. If net dividends had remained positive, the decline in the income appropriated by financial firms would have been much milder. Forewarned by the abundant literature that has studied dividend income, one should not exclude the possibility that the trend above reflects a rising shareholder-value orientation (Lazonick & O'Sullivan, 2000).[10] But a different explanation may be responsible for a significant part of it: the anticipation of dividend payments from the

[8] Taking into consideration the contested nature of the national accounting conventions related to banking activities (see Christophers, 2011), especially regarding the flow of interest, GOSf is not examined separately from the net property income of the financial firms in the present paper. Both are considered income related to the rentier activities specific of financial firms.
[9] The other components of the financial firms' net property income should be studied more carefully in future research.
[10] This is suggested, for instance, by the relative growth in profit participation (around 9 per cent on average) and interest on equity (around 10 per cent) as shares of financial firms' net profits between 2000 and 2017, according to data from the Brazilian central bank. Other possible indicators of trends in shareholder-value orientation (like share buybacks) might be considered in future research. See Lazonick, 2014.

Brazilian development bank to the Treasury, for fiscal policy purposes (see Biasoto Jr. & Afonso, 2014, p. 268-273).[11]

Unfortunately, it is not only the development bank that may bias the interpretation of the data. The central bank is also included as part of the institutional sector "financial firms," in the Integrated Economic Accounts of the Brazilian System of National Accounts, something that is not peculiar to Brazil, but a common issue for exercises that resort to this kind of data (see Power et al., 2003, Appendix; and Silva and Santos, 2016). However, examining the return on equity (ROE) of major Brazilian banks – public and private – allows us to conclude that the trajectory observed in the national accounting data is not an artifact (Figure 2 and Table 3).[12]

Figure 2- Return on equity of major Brazilian banks (2003-2019)



Source: IF.data, Brazilian Central Bank (BCB).

The ROEs of Banco do Brasil, Itaú, and Bradesco go through a clearly discernible declining trend between 2006 and 2012, falling on average from 41.2 to 29.8 per cent. The exception is the trajectory of the ROE of Caixa Econômica Federal, which remains stable during these years, probably due to the reliance of this large public bank on government-

[11] Average dividends received by the government (as a share of GNI) increased from 0.33, between 2004 and 2007, to 0.62, between 2008 and 2011.

[12] Following a suggestion from an anonymous referee – for which we are grateful – we dropped Santander from the analysis, as its return on equity seems to be substantially influenced by profit remittances to its Spanish headquarters. Also, the merger between Itaú and Unibanco in 2008 impacted the former's profits in that specific year but, as we are assessing the trends over several years, it does not seem to bias our conclusions. See on the effect of the merger on Itaú's profits, Oliveira (2017, p. 29).

subsidised housing credit. The trajectory of the ROEs of the major banks since 2012 is less closely connected to the estimate of the financial firms' income share from the national accounts, the former presenting a greater volatility. After a brief recovery between 2013 and 2015 (especially notable in the case of the private banks), the ROEs of the major banks decline with the recession of 2015 and 2016 and recover mildly afterwards.

Table 3- Return on equity of the four largest banks in Brazil (2000-2019) [per cent]

		2000-2003	2004-2007	2008-2011	2012-2014	2015-2016	2017-2019
Public Banks	Banco do Brasil	31,40	38,91	39,86	28,43	24,57	24,03
	Caixa Econômica Federal	44,65	37,32	38,36	38,13	27,84	50,39
	Average	38,03	38,11	39,11	33,28	26,20	37,21
Private Banks	Bradesco	26,65	37,30	31,88	27,16	26,17	25,15
	Itaú	31,20	40,92	32,23	26,24	27,09	25,99
	Average	28,92	39,11	32,05	26,70	26,63	25,57
Average for the 4 banks		33,48	38,61	35,58	29,99	26,42	31,39

Source: Brazilian Central Bank's IFdata, own elaboration. Return on equity is defined as net profits over equity. Similar results can be obtained by relying on banks' annual reports and data provided by the Brazil's stock exchange (Bovespa).

2.4.2 Interest flows and financial expropriation

The other component of the rentier income, the interest income received by households, represented an average of 64 per cent of the total rentier income between 2000 and 2019. In contrast to the income appropriated by financial firms, but similarly to total rentier income, IIRh did not decline after 2007: it actually increased until 2011 (with a minor fall in 2010), being squeezed only in 2012 and 2013. Then, it recovered in 2014 and 2015 and fell again from then onwards. To understand such a trajectory, it is useful to briefly examine the interest flows in the economy as a whole (Table 4).

Table 4- Interest income flows in Brazil (2000-2019)*

		2000-2003	2004-2007	2008-2011	2012-2014	2015-2016	2017-2019
Interest income paid	Households	1,46	2,27	4,98	5,09	6,24	4,37
	Nonfinancial firms	1,56	0,53	0,25	0,08	0,20	0,42
	Government	6,18	5,36	4,76	4,38	5,52	4,61
	Total	9,21	8,17	9,99	9,55	11,96	9,39
Interest income received	Households	5,59	4,85	7,30	6,87	8,15	5,86
	Financial firms	1,62	2,18	2,19	2,02	2,72	2,51
	Rest of the world	2,00	1,14	0,50	0,66	1,08	1,02
	Total	9,21	8,17	9,99	9,55	11,96	9,39

* Values refer to the share of net interest income (received or paid, depending on the institutional sector) on gross national income. The exception is the household sector, for which interest income received and interest income paid are reported separately, in an attempt to deal with the phenomenon of financial expropriation. Additionally, "households" refer to households plus non-profit institutions serving households.

Source: *Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.*

Between 2000 and 2019, intersectoral interest flows represented about one-tenth of gross national income.[13] Until 2007, about two-thirds of interest payments was undertaken by the government. On the receiving end were mainly households but also financial firms and non-residents. After 2007, however, households became the main source of interest payments, surpassing the government. This is crucial to understand how the share of total interest income paid increased almost 2 percentage points, comparing the averages of the periods between 2004 and 2007 and 2008 and 2011, *despite* a reduction of net interest income paid by both governments and nonfinancial firms (as shares of GNI). Households absorbed entirely such an increase, as net interest income (as a share of GNI) received by financial firms remained virtually stable whereas net interest income flowing to non-residents declined.[14]

Without distinguishing interest received from interest paid by households, one could think that the financial flows in the Brazilian economy were declining in a period when in fact the number of credit relations increased substantially, reaching in an unprecedented manner the poorer sections of society (Dos Santos, 2013, Lavinas, 2017: chap. 3, Garber, Mian, Ponticelli & Sufi, 2018). The reserve accumulation mentioned above allowed domestic banks to expand their balance sheet and promote short-term lending to households (Kaltenbrunner & Painceira, 2018). One evidence of such a development was the increase of household debt as a share of disposable income from below 20 per cent, in 2005, to more than 45 per cent, in 2014 (Rugitsky, 2017). Besides, the average annual growth of debt undertaken by individuals

[13] Intersectoral flows refer to flows between, instead of within, the institutional sectors defined in this part of the national accounts, that is, households, financial firms, nonfinancial firms, government, and rest of the world. The only specificity of the present discussion is dividing the households into two sectors: capitalist households that receive interest payments and worker households that make interest payments.

[14] An issue that deserves further investigation is the fact that rising interest income payments by households went predominantly to households and not to the financial firms, something decisive to the changing composition of rentier income.

earning up to 3 minimum wages was almost double the rate of growth of debt by individuals earning more than 10 minimum wages (Garber et al., 2019: figure XIII).

In rich countries, the rise in household debt has been explained as a result of workers trying to keep consumption patterns improving despite decades of stagnant wages (Barba and Pivetti, 2009). In the Brazilian case, in its turn, the story is different: higher indebtedness followed rising wages, as large segments of the population were able to overcome credit constraints, being able to access banking services in general for the first time. Additionally, institutional factors, like the legal permission of a credit modality with automatic repayments from the paycheck (the *crédito consignado)*, stimulated increased borrowing at lower interest rates, especially among the growing share of workers with formal labour contracts. The government, in its turn, further stimulated this trend, adopting a strategy of expanding access to education, health, and housing through financialised circuits (Lavinas, 2017; Loureiro, 2019). In this sense, rising financial expropriation was marketed as a successful financial inclusion. It did allow, of course, poorer workers to access basic durable goods and improve living standards. But it did so at the cost of entrenching mechanisms of reproducing inequality (see, for instance, Dos Santos, 2013, and Kim, Lima & Setterfield, 2019).

Household borrowing, excluding mortgages, started to decelerate around 2011, as a result of a set of factors, including policy changes (more restrict macroprudential policies), a deceleration of labour market formalization, and the fact that the level of indebtedness had already reached too high a level for a large share of the population (Paula et al., 2015, pp. 423-424, Serrano & Summa, 2015, p. 816-819). As shown by Brazilian Central Bank data, average household income commitment with debt service, amortisation, and interest peaked at, respectively, 29.62, 21.16, and 9.46 per cent in October 2011. The first two levels would only be surpassed in March 2020, with the pandemic. The adoption of the housing programme 'My House, My Life', in 2009, allowed mortgages to go on increasing up to 2015, as other forms of borrowing decreased – it also explains why the ROE of *Caixa Econômica Federal*, the public bank responsible for the programme, remained stable between 2011 and 2015, while the ROE of the other major banks were falling (Figure 2).

As can be seen in Table 4, interest income paid by households (as a share of GNI) remained stable, around 5 per cent, if one compares the averages of the periods between 2008 and 2011 and between 2012 and 2014, after having increased from 2.27 per cent (the average between 2004 and 2007). The increase that took place during the crisis period, between 2015 and 2016, was due not to larger borrowing, but to higher interest rates and a reduction of the denominator, i.e., of gross national income. Once economic activity stabilised (at a lower level), between 2017 and 2019, and interest rates resumed their decline, the share of interest paid by households declined to, on average, 4.37 per cent.

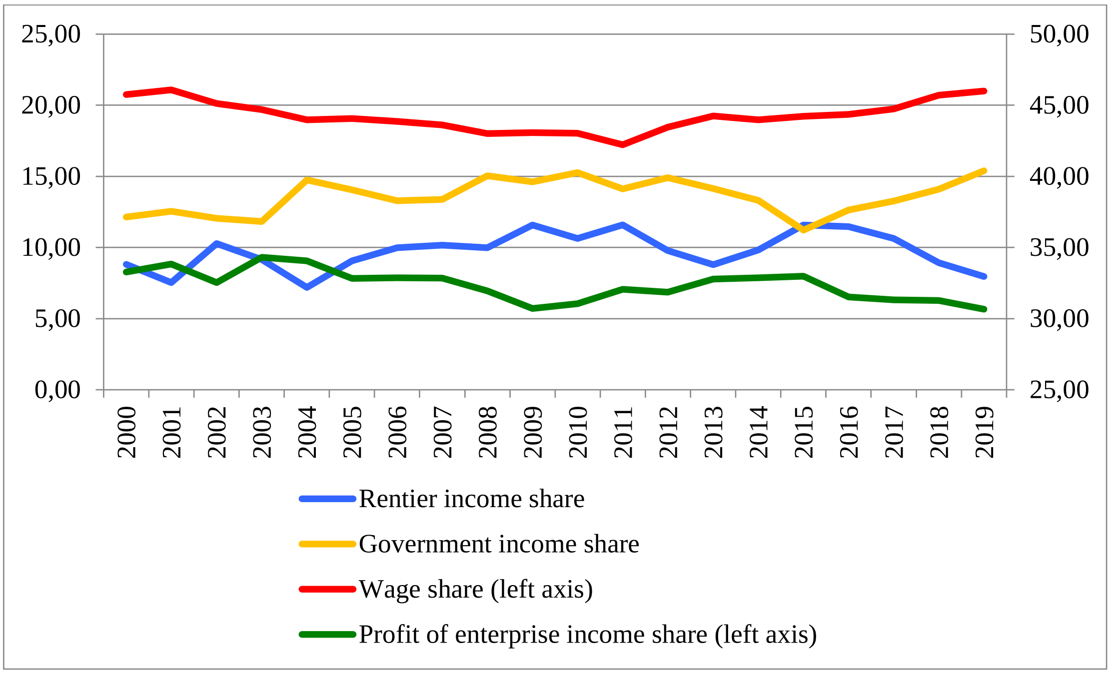
The stabilization of household borrowing between 2012 and 2014 is important to understand the rentier share squeeze that is observed in the period, because such stabilization blocked household borrowing from compensating for falling interest payments (as a share of GNI) by nonfinancial firms and by the government, as it had done in the preceding periods. The ensuing reduction of total interest payments (as a share of GNI), thus, pushed downward the two components of the rentier income share. In other words, since 2005, an increase in the level of borrowing, especially by workers, compensated for falling real interest rates, sustaining the level of interest payments and of rentier income.[15] As the level of borrowing stabilized, the effect of lower interest rates could no longer be avoided, and rentier income was squeezed. Critically, such a stabilization took place precisely at the moment that the government was openly challenging rentier income, by reducing the policy rate and forcing down interest rate spreads – an episode that has been called the "battle of the spreads" (see Singer, 2020).

2.5 The political economy of the distributive conflict

Having examined the trajectories of the components of the rentier income share, the distributive conflict and the shifts of the four major shares remain to be analysed. The data for the expanded functional income distribution, along with some other relevant variables, can be seen in Table 5 and Figure 3. After an initial period of economic volatility, from 2000 to 2003, in which the four shares swung up and down, economic growth accelerates and wage pressure starts to build up (as can be seen in the rise of the employees' compensation share, in Table 5). First, given the high level of unemployment, the pressure stemmed mainly from policy (especially, increases in the minimum wage) and sectoral dynamics (growth being concentrated in economic activities with above-average wage shares) (Dias & Ruiz, 2016, Martins, 2017, p. 108; for an interpretation of these sectoral dynamics, see Rugitsky, 2017, 2019, and Loureiro, 2020). Later, in the recovery from the global financial crisis that broke out in 2008, actual tightening of the labour market starts to be observed, along with rising strike activity (Medeiros, 2015: chap. 3; Serrano & Summa, 2018; see also Rugitsky, 2022).

[15] There is a clear declining trend between 2006 and 2012 for both the real policy rate (Table 5) and for some market rates (for vehicles and the *crédito consignado*, for instance; see Serrano and Summa, 2015, p. 815).

Figure 3- Functional income distribution in Brazil (2000-2019)



Source: *Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE).*

The puzzle is why the economic expansion, and the associated tightening of the labour market, did not allow the working classes to appropriate a larger share of income, in the period from 2004 to 2011. In effect, both the wage and the profit of enterprise shares decline in this period and the benefits are reaped mostly by the rentiers – and, to a lesser degree, by the government. To explain these trends, one needs to look at the disaggregated data of the expanded functional distribution of income (Table 5). The working classes were indeed able to capture a larger share of income at the labour market, with the share of employees' compensation in gross national income increasing almost four percentage points between 2004 and 2011. However, collectively, they transferred more than what they gained to the rentiers, in the form of interest payments on their ballooning debts.[16] Taking these two issues into account, one understands how the wage share of income *fell* almost two percentage points in the period.

[16] The observed decline in the share of gross mixed income appropriated by the workers is probably a result of the formalisation process that took place in the period, which pushed down the share of mixed income – both the part going to the workers and the part flowing to functioning capitalists (Carvalho, 2015; Maurizio, 2015). If this is so, part of the increase in the share of employees' compensation is actually a result of the re-classification of income from mixed income to compensation, resulting from previously informal workers obtaining formal labour contracts

Table 5- Functional income distribution in Brazil and other selected variables (2000-2019)*

	Rentier Income Share	Wage Share	Disaggregated wage share			Profit of Enterprise Share	Disaggregated profit of enterprise share			Government Share	Disaggregated government share			Other selected variables			
			EC	GMIw	-IIPh		GOSp	GMIp	NPIp		GOSg	NT	NPIg	Inflation rate	Nominal policy rate	Real policy rate	GDP growth
2000	8,83	45,76	40,37	6,85	-1,46	33,29	30,45	5,89	-3,05	12,13	1,69	15,19	-4,75	5,97	17,45	10,83	4,39
2001	7,53	46,08	40,90	6,61	-1,44	33,83	29,57	5,52	-1,25	12,55	1,70	16,22	-5,37	7,67	17,32	8,96	1,39
2002	10,28	45,13	40,29	6,23	-1,38	32,53	29,77	5,46	-2,70	12,06	1,65	16,25	-5,85	12,53	19,16	5,89	3,05
2003	9,16	44,69	39,79	6,48	-1,57	34,31	29,97	5,75	-1,40	11,84	1,68	15,95	-5,79	9,30	23,34	12,84	1,14
2004	7,19	43,99	39,51	5,82	-1,35	34,06	31,14	5,26	-2,34	14,76	1,63	16,78	-3,65	7,60	16,24	8,03	5,76
2005	9,06	44,07	40,43	5,76	-2,12	32,82	29,99	5,00	-2,17	14,05	1,60	16,76	-4,31	5,69	19,04	12,64	3,20
2006	9,98	43,86	41,02	5,52	-2,68	32,88	29,89	4,69	-1,70	13,28	1,52	16,49	-4,72	3,14	15,08	11,58	3,96
2007	10,17	43,62	41,14	5,41	-2,93	32,84	29,76	4,58	-1,50	13,37	1,41	16,27	-4,31	4,46	11,85	7,08	6,07
2008	9,98	43,02	41,60	5,30	-3,88	31,96	29,62	4,34	-2,00	15,04	1,39	17,25	-3,60	5,90	12,48	6,21	5,09
2009	11,58	43,08	43,40	5,04	-5,36	30,72	29,13	3,92	-2,32	14,61	1,42	16,21	-3,01	4,31	9,92	5,38	-0,13
2010	10,64	43,04	42,99	4,86	-4,81	31,05	30,04	3,93	-2,93	15,27	1,35	16,62	-2,69	5,91	9,78	3,66	7,53
2011	11,59	42,22	43,33	4,75	-5,86	32,06	29,94	3,78	-1,65	14,12	1,33	16,35	-3,57	6,50	11,62	4,80	3,97
2012	9,77	43,45	43,88	4,95	-5,38	31,87	29,26	3,80	-1,18	14,91	1,34	16,31	-2,74	5,84	8,48	2,50	1,92
2013	8,80	44,25	43,88	5,00	-4,62	32,79	28,95	3,77	0,07	14,15	1,33	15,75	-2,93	5,91	8,21	2,17	3,00
2014	9,83	43,98	44,37	4,90	-5,28	32,87	29,14	3,72	0,01	13,31	1,38	15,21	-3,27	6,41	10,91	4,23	0,50
2015	11,57	44,22	45,44	4,93	-6,15	32,98	27,63	3,55	1,80	11,22	1,49	15,28	-5,55	10,67	13,29	2,36	-3,55
2016	11,47	44,37	45,69	5,00	-6,32	31,53	27,22	3,62	0,70	12,64	1,60	14,84	-3,80	6,29	14,03	7,28	-3,28
2017	10,64	44,75	45,21	4,89	-5,35	31,33	27,46	3,57	0,30	13,28	1,60	15,22	-3,54	2,95	9,96	6,81	1,32
2018	8,94	45,71	44,89	4,90	-4,08	31,27	28,41	3,67	-0,81	14,09	1,57	15,82	-3,30	3,75	6,42	2,58	1,78
2019	7,95	45,99	44,76	4,89	-3,66	30,66	28,45	3,70	-1,48	15,39	1,61	15,62	-1,84	4,31	5,95	1,57	1,41
Period Averages																	
2000-2003	8,95	45,42	40,34	6,54	-1,46	33,49	29,94	5,65	-2,10	12,15	1,68	15,91	-5,44	8,87	19,32	9,63	2,49
2004-2007	9,10	43,88	40,53	5,63	-2,27	33,15	30,20	4,88	-1,93	13,87	1,54	16,57	-4,25	5,22	15,55	9,83	4,75
2008-2011	10,95	42,84	42,83	4,99	-4,98	31,45	29,68	3,99	-2,23	14,76	1,37	16,61	-3,22	5,66	10,95	5,01	4,12
2012-2014	9,47	43,90	44,04	4,95	-5,09	32,51	29,12	3,76	-0,37	14,12	1,35	15,75	-2,98	6,05	9,20	2,97	1,81
2015-2016	11,52	44,29	45,56	4,97	-6,24	32,26	27,42	3,59	1,25	11,93	1,54	15,06	-4,67	8,48	13,66	4,82	-3,41
2017-2019	9,18	45,48	44,95	4,90	-4,37	31,09	28,10	3,65	-0,66	14,25	1,59	15,55	-2,89	3,67	7,44	3,65	1,51

* Shares of gross national income.

Sources: ***Distribution data*** *from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.* ***Inflation rate*** *refers to IPCA from the Brazilian Institute of Geography and Statistics (IBGE).* ***Nominal policy rate*** *refers to the annual average of the SELIC rate, calculated from montly averages published by the Brazilian Central Bank.* ***Real policy rate*** *is defines as 100*(1+Nominal Rate)/(1+Inflation Rate).* ***GDP growth*** *refers to real annual change of GDP at market prices, from the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (SNA/IBGE).*

Legend: *EC (employees' compensation); GMIw (workers' share of gross mixed income); IIPh (interest income paid by households and non-profit institutions serving households); GOSp (economy's gross operating surplus minus financial firms' and government's gross operating surplus); GMIp (functioning capitalists' share of gross mixed income); NPIp (economy's net property income minus financial firms' net property income minus households' and non-profit institutions serving households' net interest income minus government's net property income); GOSg (government's gross operating surplus); NT (taxes net of subsidies on production and imports); NPIg (government's net property income)*

The functioning capitalists, in their turn, also saw their share of income decline.[17] In their case, such a fall was a combined result of the decline of the three components of their share of income, that is, gross operating surplus, gross mixed income, and net property income. While the falling gross operating surplus may be interpreted as the result of wage pressure, the decline in net property income seems to have been mostly due to strategic decisions of multinational corporations following the 2008 crisis – the reduction in net property income is mainly explained by an increase in (imputed) property income paid due to rising reinvestment of profits from foreign direct investment.

Comparing the averages for the periods between 2004 and 2007 and 2008 and 2011, the shares of wages and profit of enterprise declined together 2.75 percentage points, making room for larger rentier and government shares. The latter took hold of a third of it, as a result of falling interest payments on government debt, which accompanied the mentioned decline of the real policy rate (Table 5). The main winner of the distributive conflict in the period was, however, the rentiers. As noted in the previous section, the increase in their share of gross national income was a consequence of financial expropriation, as it is entirely accounted by rising interest received from workers' households, as interest payments by functioning capitalists remained stable and the ones by the government fell (Table 4).

Studies about the functional distribution of income in Brazil, focused on the last two decades, tend to emphasise how distribution shifted in favour of the workers during the government of the Workers' Party (Serrano & Summa, 2012; Dias & Ruiz, 2016; Rugitsky, 2017; Saramago et al., 2018). Without dismissing the important redistribution efforts undertaken in the period, the present research paints a different picture: an inclusive growth strategy that eases access to credit and stimulates the diffusion of financial services may end up redistributing income to the rentiers rather than to the workers. The rentier bonanza is cut short in 2012, in the run-up to the multiple crises (economic, political, social) that would start to overlap from 2014 onwards. At this point, the decline in unemployment that began in 2004 had resulted in an unprecedentedly tight labour market and strike activity increased substantially (Braga, 2016, Marcelino, 2017, Summa & Serrano, 2018). The number of strikes recorded in 2013 was the highest in the series compiled since 1984 and was almost 3 times

[17] Such a decline in the profits of enterprise share does not entail necessarily a squeeze on profit rates, as the latter is determined not only by the former but also by the capacity/capital ratio, and the capacity utilisation rate, as shown by Thomas Weisskopf's (1979) seminal decomposition. Martins and Rugitsky (2021), using a different measure of the profit share, identify a profit rate squeeze between 2009 and 2014. According to their data, from 2004 to 2009, the decline in the profit share was more than compensated by increases in the other components of the profit rate.

higher than the average for these thirty years (Marcelino, 2017, p. 206). Inevitably, this intensified the wage pressure that characterized the preceding period. The different feature of this period was the stabilisation of the share of interest payments from workers, which no longer compensated the rising share of employees' compensation. In 2012 and 2013, the wage share of income increases more than two percentage points.

The trajectory of the profit of enterprise share also underwent an inflection, rising between 2012 and 2015. Such an increase was entirely due to net property income, given that the functioning capitalists' gross operating surplus continued its falling path. The main reasons for the reduction of property income paid out by this institutional sector was a decline in dividends paid to non-residents (and, to a lesser extent, to the government) and an increase in the dividends received from the financial firms.

A reduction in the government income share, due to a decline in the share of taxes net of subsidies on production and imports, partly allowed for the mentioned increases in the shares of wages and profit of enterprise.[18] But as the rentiers had been the main winners of the distributive conflict from 2004 to 2011, they were the major losers between 2012 and 2014. In the span of just two years, from 2011 to 2013, the rentier share of income declined 2.79 percentage points. As mentioned before, household borrowing stabilized in the period, constraining rentiers' capacity to increase their income from financial expropriation and to compensate, in this way, for falling interest rates. Besides, the decline in interest rates itself was intensified.

In August 2011, the Brazilian central bank started a process of reduction of the policy rate that would, in 14 months, lead to a decline of 5.25 percentage points, bringing the real interest rate to around 2 per cent. It was part of a policy shift that was immediately denounced by financial market operators as a weakening of the central bank autonomy. It could be also read, of course, as an attempt to make monetary policy autonomous from rentier interests. Additionally, in 2012, the government scaled up the challenge, using the public banks to force down interest rate spreads, leading to a reduction in the market share of the private institutions (Freitas & Cagnin, 2014, Oliveira, 2017, Singer 2020).

These shifts ended up being short-lived, however. With the economic collapse between 2014 and 2016 – GDP fell more than 3 per cent both in 2015 and in 2016 –, the rentier income share recovered, virtually reaching the previous peak levels observed in 2009 and 2011. One of the reasons for such a recovery lies in the monetary tightening that was both

[18] The decline of the share of net taxes can be attributed to an effort by the federal government to reduce payroll taxes, to boost foreign competitiveness of domestic production. See Scherer (2015).

a cause and a consequence of the crisis: the real policy rate reached in 2016 its highest level since 2006, and financial firms were able to take advantage of that by shifting their focus from credit operations to the buying of bonds (Oliveira, 2017). This time, however, the increase in the share flowing to rentiers was not mainly at the expense of workers and functioning capitalists, but the government.

Regarding the workers, even with the steep increase in unemployment, the reduction of wage income did not keep pace with the fall of total income and the wage share tended slightly upwards in the crisis years, despite the fact that interest payments increased with the monetary tightening. Such a development is typical of the beginning of a crisis, but the persistence of high unemployment eventually forced down the share of employees' compensation, between 2017 to 2019. In what concerns the functioning capitalists, their share was negatively affected by a reduction of about 2 percentage points of the gross operating surplus, between 2014 and 2016, also a common development during crises. Once more, however, this was almost completely compensated by a reduction of dividends paid to the government and to non-residents and an increase in dividends received from financial firms. In terms of the distributive conflict, then, the government was the institutional sectoral most affected by the crisis, with its income share dropping more than two percentage points (comparing the averages for 2012-2014 and 2015-2016), as taxes net of subsidies declined further and, most importantly, interest payments on government debt increased with the monetary tightening.

The trajectory of the distributive conflict in the last three years for which data is available can appear surprising at first sight, as the wage and, especially, the government shares gained ground to the detriment of the rentier and profit of enterprise shares. After all, the period after 2016 was characterised by a profound political turn against previous redistributive policies, with a coup ousting the Workers' Party from the government after 13 years, in 2016, and the election of a far-right president, Jair Bolsonaro, in 2018. The shift represented, quite explicitly, the adoption of virulent anti-labour policies and the gradual dismantling of the institutional framework that supported the redistribute efforts undertaken by the preceding governments. An example was the spending cap constitutional amendment approved in 2016, which froze government expenditure in real terms for twenty years. Given the trajectory of the expanded functional income distribution, is it possible to say that such a shift was not successful in meeting its goals? It probably was.

Looking at the disaggregated data for the wage and profit of enterprise shares, it seems that the shift towards austerity, since 2016, was able to reorient distribution against workers. The employees' compensation share has been falling since that year and the wage share of income drifted upwards exclusively because of falling interest payments. The functioning capitalists, in their turn, managed to appropriate larger shares of income as gross operating surplus (which has been increasing every year since 2016) and did not end up with larger shares of income overall due to larger payment of natural resource royalties to the government and, once more, an increase in the (imputed) income paid to multinational corporations. Finally, the increase in the government share is not only a consequence of the mentioned increase in royalties received but also of the falling interest payments on government debt.

As for the rentiers, since they relied more and more on financial expropriation of workers as a source of income, it may be the case that they were harmed by the crisis and the ensuing stagnation, which were not conducive to the expansion of workers' indebtedness. Contrary to what Barba and Pivetti (2009) noticed for the US case, the growth in Brazilian household debt did not follow stagnant wages. Instead, it was fuelled by a rise in the compensation of employees. Following the crisis of 2015 and 2016, when debt levels were the highest, policy decisions to restore economic activity have never recurred to demand boosts and relied on reducing labour costs to restore Brazilian economic activity. Such a strategy had little effect on opening the way to increasing household indebtedness levels, failing to contain the reduction of financial expropriation to record lows.

Although the fall in the policy rate should not be understated in this case, neither should be the inability of promoting a new credit/indebtedness cycle. Low demand levels, high unemployment, and stagnant wages might be associated with a reduced ability of rentiers to engage in financial expropriation. Ongoing efforts to stimulate the expansion of *crédito consignado* backed by government cash transfers may be interpreted precisely as an attempt to unlock workers' borrowing. This could reflect a particular dimension of financial expropriation in peripherical economies, where wage levels tend to be relatively low in comparison to developed economies.[19]

[19] Lattanzi-Silveus (2019, p.13-14) suggests that interest income paid by workers derive from both surplus value and means of subsistence. The first case would only be possible "if capitalists had to pay workers more, so that they could pay the interest while keeping their standard of living constant". The second, however, seem to be the rule: "What we have seen empirically already, though, is that wages have not increased, even though debt has". As the reduction of financial expropriation accompanies wage compression in Brazil, it brings the question about the actual ability of rentiers to expropriate income from workers' means of subsistence in low-income economies.

Finally, it is also not unlikely that the rentiers might have compensated what they lost in interest income with capital gains as the steep decline in the real policy rate led to asset price inflation. If this is so, the decline of the rentier share reported here could be misleading as, due to data constraints, capital gains were not incorporated.

2.6 Concluding remarks

The preceding interpretation makes three main contributions to the available literature. The first one concerns the theoretical literature on the tripartite distributive conflict. As Kalecki (1943) anticipated, Brazilian rentiers did get "boom tired," but they did so for reasons different than the ones suggested by the Polish economist, as they were able to postpone the squeeze of their income share by compensating falling interest rates with increasing credit volume (especially targeted to workers, in a process of financial expropriation). Epstein's (1996) suggestion needs also to be qualified: despite its "floating" exchange rate regime, Brazilian currency did not depreciate during the boom to accommodate rising wage costs. In fact, until 2011, the exchange rate appreciated continuously as the central bank took advantage of the commodities boom and the related global liquidity cycle to hold inflation down (Barbosa-Filho, 2008, Serrano, 2010, Summa & Serrano, 2018). It managed to do so with falling policy rates as international policy rates declined. Such appreciation probably squeezed the margins of the producers of tradable goods, but it is not unlikely that this was insufficient to squeeze profit rates (being compensated by higher capacity utilization rates and capacity-capital ratios) (Martins & Rugitsky, 2021). Profit rates were only squeezed later in the boom, together with the rentier income share, in line with what Boddy and Crotty's (1975) predicted.[20]

The second contribution is related to the literature on the recent trajectory of income distribution in Brazil. Research resorting to fiscal data (Medeiros, Souza, and Castro, 2015) and to a class-decomposition of inequality (Loureiro, 2020) have shown that inequality has fallen, if at all, much less than previously supposed. While the lot of the poorest sections of the population has certainly improved and wage disparity has declined, the class determinants of inequality were mostly untouched. The present expanded functional distribution of income adds to these findings by revising the trend of the wage share of income, which was believed

[20] Martins and Rugitsky's (2021) identification of a profit squeeze relies on a functional income distribution that does not consider rentier income. It would be interesting to check whether the functional income distribution presented here would change this result.

to have increased since 2004 (see, for instance, Rugitsky, 2017, Saramago et al., 2018): once interest payments by workers are considered, the wage share falls almost continuously between 2001 and 2011. Such decline reinforces the hypothesis according to which growing household indebtedness, by increasing the volume of interest flows from poorer to richer groups, leads to higher inequality (Dos Santos, 2013).

Finally, the third contribution regards the literature on the recent crisis in Brazil. It is broadly accepted by critical approaches that the origins of the crisis should be placed in an intensification of class struggle that was observed during Dilma Rousseff's first government (2011-2014), even if the details of how this happened are subject to heated controversy (Boito , 2018, Carvalho, 2018, Serrano & Summa, 2018, Singer, 2018, Martins & Rugitsky, 2021). The role of rentier interests is often mentioned in these debates. The present research, by describing the trajectory of rentier income from growing financial expropriation to the rentier squeeze of 2012 and 2013, provides a useful starting point to examine the political action of rentiers and their conflicts with workers and functioning capitalists.

3 FISCAL POLICY AND DISTRIBUTIVE CONFLICT IN BRAZIL (2000-2019)

3.1 Introduction

Lately, Brazil has experienced institutional changes that impacted the potential of the redistributive model envisioned by the Federal Constitution of 1988. The first occurred in 2016 when the National Congress approved a 20-year spending ceiling which limited government expenditures growth in real terms. Then, in 2017, the labour legislation underwent an unprecedented reformulation, the most significant since its establishment in the 1940s. It aimed at the flexibilization of employment agreements and remuneration schemes, as well as the decentralization and individualization of negotiations between employers and employees. Finally, in 2019, the reform of the Brazilian pension system focused on the fiscal burden of an ageing population, removing part of the constitutional safeguard of its benefits.

These changes took place in an unfavourable political moment for the Brazilian working class, as they occurred right after the interruption of fourteen years of successive governments led by the Workers' Party (2003-2016). As broadly documented, most of this period combined economic growth and income distribution, which allowed the government to reduce poverty and inequality. Besides the well-known experience of the *Bolsa Familia*, literature consents on the role played by two policies in improving worker's income through changes in the labour market: the periodical readjustment of the real minimum wage, which grew at an annual average rate of 5 per cent between 2000 and 2014; and the strong incentives to reduce labour informality, which decreased 1.5 per cent per year from 2004 to 2013 (Melo, Figueiredo, Mineiro & Mendonça, 2012; Medeiros, 2015a; Brito; Foguel & Kerstenetzky, 2017; Rugitsky, 2017; Dweck, Baltar, Marcato & Krepsky, 2022).

After 2009, when changes in the external and domestic conditions for capital accumulation led to an economic slowdown, the Brazilian distributive conflict intensified. Evidence indicates that a falling profit income share negatively affected profitability, pushing the capitalist class against the political agreement that forged the redistributive growth experience (Martins & Rugistky, 2021; Marquetti; Hoff & Miebach, 2020; Saramago et al., 2018; Boito & Saad-Filho, 2016; Singer 2020). Turning back to Kalecki's argument on the Political Aspects of Full Employment, the agenda of fiscal consolidation adopted after 2014, the interruption of the mandate of Dilma Rousseff and the aforementioned structural reforms that followed suggest that capitalist reaction moved against the redistributive role of the Brazilian state.

Based on the political economy debate on the redistributive role played by the state in the 1970s accumulation crises in the United States, this article reconstructs the trajectory of the Brazilian fiscal policy from 2000 to 2019. It focuses on how it could have contributed to the rising class tensions that anticipated the broke out of the political and economic crises after 2014. For this, it estimates the net social wage (the net contribution of fiscal policy to the working class) for the Brazilian economy during that period (Bowles & Gintis, 1982; Shaikh & Tonak, 1984; 2000; Maniatis, 2003; Maniatis & Passas, 2014; Moos, 2019; Moos & Qi, 2022). Results show an upward trend in the net social wage from 2004 to 2014, indicating that the Brazilian fiscal policy has acquired an increasing pro-labour orientation. The trajectory of the net social wage suggests the rise and fall of a pro-redistribution attempt during the Workers' Party administration.

These governments have triggered an enduring pro-labour fiscal policy sustained by the growth of social spending, mainly related to social security. After 2010, when the economic slowdown and the fiscal deterioration forced the contraction of government expenditures, the resilience of social spending expressed the continuity of the pro-redistribution attempt even with the turn towards austerity in 2015. Hence, the upward trend in the net social wage for Brazil indicates the potential contribution of the state to the escalation of the distributive conflict. On the one side, there is room to reinterpret the cyclical profit squeeze between 2009 and 2014 in light of the state intervention. On the other, it helps to understand the austerity discourse that pervaded the process of Rousseff's impeachment as well as the reforms that followed her removal in 2016.

This effort also aims to contribute to two different literatures. The first concerns the literature that measures the redistributive role of the Brazilian state according to survey microdata in Brazil (Medeiros et al., 2015; Silveira et al, 2020). As these studies focus on the impacts of redistribution on inequality by looking at the personal income and aspects concerning the division between labour and capital, they do not explore the relation between redistributive policies and business cycles and the political economy of the redistribution in detail. The second refers to the attempts to interpret the economic determinants of the political crisis in Brazil by focusing on the distributive conflict. This literature has largely focused on the primary dimension of the distribution, which does not emphasize the specific role played by state policies in mediating capital-labour relations (Marquetti et al., 2020; Martins & Rugitsky, 2021).

In addition to this introduction and the final considerations, this article has four other sections. Section 2 discusses the origins of the net social wage literature by assessing the debate on the 1970s profit squeeze crisis in the United States. Section 3 presents the role played by the distributive conflict to the Brazilian political and economic crises and stresses the importance of the fiscal policy in that context. Section 4 explores the argument presented in section 3 by detailing fiscal policy trajectory during the Workers' Party governments, focusing on cyclical, policy, and institutional determinants. Section 5 presents the method and the main results for the net social wage estimation from 2000 to 2019. Finally, section 6 analyses the political economy of the redistributive fiscal policy in Brazil.

3.2 From the profit squeeze theory to the net social wage literature

In the 1970s, the persistent effects of the accumulation crisis resulted in increasing setbacks to the labour movement in central capitalist economies. O'Connor (1981, p. 110) suggested that a “massive reorganization or restructuring of capitalism on a world scale” was in process, being its immediate consequence “a massive reduction in the working-class living standards”. With the intention of explaining this turnover in the post-war welfare experience, critical political economy resurged with a common understanding that other interpretations had been failing to explain the contradictions of capital accumulation in the light of the triad capital-labour-state (Bowles & Gintis, 1982; Bowles; Gordon & Weisskopf, 1986; Shaikh & Tonak, 1987).

The debate was especially prominent for the United States economy, which had been experiencing a combination of inflationary pressure, budgetary cuts in social policy and reduction of labour rights. According to Bowles, Gordon and Weisskopf (1986), the moment indicated the destruction of two main pillars of the post-war economy. First, the “capital-labour accord” – an agreement that preserved capital’s control over the decision-making process of the enterprise in exchange for better working conditions and working-class gains along with labour productivity –, and the “capital-citizen accord” – an arrangement that allowed the state to balance the conflict between capitalists’ pursuit for profits and people’s demand over better socio-economic conditions.

Several authors agreed on the ephemeral nature of these agreements once they relied on unsolvable tensions originating from the distributive conflict. For instance, some estimations indicated that from the late 1940s to the early 1970s, short-term booms and busts had been accompanied by decreases in the profit share of national income and elevations in the wage share "in the latter half of every expansion", which could be associated with a long-term fall in the profit rate in the US economy (Boddy & Crotty, 1975, p. 1; Weisskopf, 1979). The profit squeeze was especially prominent between 1965 and 1972 when the economic crisis broke out. This moment preceded a "weakening of the labour movement […], the rise of unemployment, and of course, the notoriously anti-working-class policies of the national administration in the 1980s" (Michl, 1988, p. 11).

Some authors defended that the profit squeeze was a consequence of the effects of the falling unemployment on the labour bargaining power, implying that a constrained reserve labour army would have forced wages up and generated a *wage-induced profit squeeze* (Boddy & Crotty, 1975; Weisskopf, 1979; Goldstein, 1996). This hypothesis suggested a "successful class struggle waged by labour against capital" (Boddy & Crotty, 1975, p.1), even with Weisskopf's (1979, p.372) remarks on the "defensive" nature of the profit squeeze: it might have derived more from the effects of the deterioration in terms of trade than from workers' ability to benefit from productivity gains.

Nonetheless, it had little to inform about the second pillar of post-war agreements in the US economy – the "capital-citizen accord" –, or the potential influence of government policies on the accumulation crisis. The few insights on this topic are owed to comments of Boddy and Crotty (1975, p. 5) on Kalecki's (1943) argument that a deliberate full-employment policy promoted by the government could foster reactions of the capitalist class. According to Kalecki (1943, p. 330), even considering that full-employment policies could result in both rising wages and profits, a diminishing reserve army of labour (and rising bargaining power of the working class) would be risky to capitalists. The capitalist reaction "would most probably induce the government to return to the orthodox policy of cutting down the budget deficit".

Boddy and Crotty (1975) disagreed with Kalecki on the capitalist class's reaction to full-employment policies in the context of rising profit margins. They believed that full-employment policies would inevitably lead to a *wage-induced profit squeeze* due to the insoluble contradiction between wages and profits. In such a context, capitalists would resort to the government's ability to guarantee labour discipline by actively promoting unemployment via fiscal (cutting expenditures) and monetary (combatting inflation) policies. Accordingly, the government intervention in the distributive conflict would pursue the objectives of the capitalist class and "ensure that the alternating pressures for expansion and contraction emanating from the private sector result in that cyclical pattern most conducive to long-run profit maximization" (Boddy & Crotty, 1975, p. 10; Sherman, 1976). To Bowles and Gintis (1982, p. 57), both contributions of Kalecki (1943) and Boddy and Crotty (1975) attributed a simplistic role to the state that fundamentally reflected the interests of capitalists in "disciplining labour and restoring reserve armies". This would represent a shared misconception in Marxist theory, as it conceived the state as no "more than a dependent variable in the process accumulation" which would "respond maximally if for different reasons, to reproduce the conditions of accumulation" (Bowles & Gintis, 1982, p. 57-59).

Bowles and Gintis (1982) argued that the coexistence of modern capitalism and liberal democracy has increasingly required the state to assume more than a regulatory role over capitalist dominance (protecting property and preventing labour organization). This context demanded the expansion of the role played by the state from the responsibility for "enforcing the rules of the game" to the concrete regulation and constitution of capital-labour relations: "through policies concerning immigration, family structure, regional development, schooling and technical research, the state is now a critical part of the determination of the reserve army", a phenomenon previously restricted to capital-labour conflict (Bowles & Gintis, 1982, p. 56). It implied that the post-war capital-labour accord meant "the emergence of the state as a major locus of class struggle" (p. 70), which has been fundamentally resumed in the distributive contests over the value of wages, and the amount of public spending directed to the working class. Nevertheless, while the profit squeeze literature had discussed the former, it did not offer an assessment of the latter. Therefore, based on estimations that showed a stagnant labour share and falling profits in US non-financial sector, Bowles and Gintis (1982) suggested that state provisions to the working class were more important than wage gains to explain why the post-war economic model reached its paroxysm in the transition to the 1970s.

The argument stated that the growing participation of the "citizen wage" – or net social wage[21] – "that part of a person's consumption supplied by the state by virtue of his citizenship rather than directly acquired by the sale of labour power"- had promoted consistent income redistribution from capitalists to workers throughout public social expenditures. These would have been significant in subsidizing the reproduction of the working class in the US post-war economy: the provisions allowed workers to bear some of

[21] "Citizen wage", "social wage", "net transfers", and "net tax" are all synonyms that refer to the social provisions from the state to the working class.

the social reproduction costs that otherwise would have been covered by wages[22]. However, contrary to expected, the rising net social wage would not have been able to *"enhance aggregate demand and support a higher rate of profit"* undefinedly. It has exerted pressure on capital income, assuring that "distributive gains made by workers were not achieved in their direct confrontation with capital over the bargaining table, but in the state" (Bowles & Gintis, 1982, p.68-70). In sum, instead of a *wage-induced profit squeeze*, Bowles and Gintis (1982) suggested the existence of a "*state-induced profit squeeze*" (Maniatis & Passas, 2018, p. 4).

Shaikh and Tonak (1987; 2000) contested Bowles and Gintis' (1982) method and results. By re-estimating the net social wage for the US economy, these authors showed that it had been negative for most of the post-war period. Therefore, instead of supporting working-class reproduction and promoting redistribution, the state would have been draining income from workers[23]. Consequently, the post-war state policy did not represent a barrier to rising labour exploitation, being the *wage-induced profit squeeze* hypothesis more plausible.

Shaikh and Tonak's (1987; 2000) estimation consolidated the social wage as a tool to evaluate the state's contribution to the distributive conflict and inaugurated a literature that has been replicating the calculation for other economies and proposing methodological adaptations: "there exists currently a well-developed and generally accepted method of allocating state expenditures and taxes to the different classes, especially, labour and estimating the net transfer or net social wage" (Maniatis & Passas, 2018, p. 5, Akhram-Lodi, 1996; Shaikh & Tonak, 2000; Maniatis, 2003; 2013; Reveley, 2006; Maniatis & Passas, 2018; Fazeli; Fazeli & Shaikh, 2019; Moos, 2019, Missos, 2020; Moos & Qi, 2022).

Recently, however, the net social wage literature focused on the redistributive role of the state in a neoliberal context. It has been investigating whether the structural changes in capital accumulation that occurred after the 1970s altered not only the trajectory of social wage estimations but also the meaning and the importance of the latter in the light of neoliberal capitalism (Harman, 2008; Blank, 2014; Maniatis & Passas, 2018; Moos, 2019; Missos, 2020, Moos & Qi, 2022). Findings suggest that the existence of a neoliberal state does not necessarily imply a reduction in social spending or a negative net social wage (Harman, 2008). From the 2000s onwards, social spending increased more than tax revenues from workers in developed economies. Some authors attribute this contradictory move to the

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[22] Following this, the net social wage affects the value of the labour force and directly influences the determination of the reserve army. Hence, it is associated with movements on the exploitation rate (Bowles & Gintis, 1982; Marshall, 1984; Oliveira, 1985; Shaikh & Tonak, 1987).

[23] According to Shaikh and Tonak (1987, p. 184), "a rising level of social expenditures would not in itself imply a rising burden for the system, since it could merely represent a rising amount of income re-circulated via state".

combination of, first, low growth rates and higher social instability (which triggers automatic stabilizers more frequently); second, the ageing population (which demands more social expenditures); but, above all, from a structural change in policy conduction (Maniatis & Passas, 2018; Moos, 2019). While stagnant real wages and deteriorating social protection prevent the rise in labour costs and sustain capital profitability, the contradictions manifest themselves in the role played by the state: the less central it becomes to capitalist production, the more relevant it is to guarantee the minimal conditions for labour reproduction. According to Moos (2019, p.20*),* *"*the net social wage data demonstrate that neoliberal fiscal policy mix is not less expensive for the state, but actually requires greater redistribution to labour*".*

Therefore, the underlying hypothesis is that a rising net social wage paradoxically derives from the increasing fragilization of the working class in neoliberalism. In that case, different from the post-war period, neoliberal management of the economy would have been characterized by social protection schemes oriented to low-income strata. Based on focalized, means-tested income transfer policies, they might have been generating *"*cyclical and structural threats to social reproduction, including prolonged joblessness, high healthcare costs, and degradation in the quality of wor*k"* (Moos, 2019, p. 21).

Hence, the problem presented by the contemporary social wage literature diverges from the one posed by Bowles and Gintis (1982) and Shaikh and Tonak (1987): if, in the latter approach, a positive social wage indicated the state's fiscal ability to reduce pressures over the exploitation of the working class; in this new approach, a positive social wage becomes a consequence to rising labour exploitation. In sum, an increasing social wage in neoliberalism would indicate more a (quantitative) enlargement of the social protection network than a deeper (qualitative) presence of the state in subsidizing the reproduction costs of the working class.

3.3 Fiscal policy and the Brazilian distributive conflict in the 21st century

Following the debate presented in the past section, it is noteworthy that fiscal policy was at the roots of Brazilian economic and political crises that culminated in the interruption of the Workers' Party (2003-2016) administration. First, the discursive motivation of Rousseff's impeachment was focused on fiscal policy, as accusations against her lay on the use of institutional manoeuvres to balance the public budget during the 2012-2014 period (Carvalho, 2018). Second, many suggested that macroeconomic mismanagement helped to produce the economic slowdown and contributed to the deterioration of public finance. Some approaches blamed the excessive state interventionism and non-conventional policy mixes for the economic downturn. Others, on the contrary, emphasized that political pressures toward fiscal consolidation forced a reduction in aggregate demand and growth deceleration (Rossi, Mello & Bastos, 2019; Chernavsky, Dweck & Teixeira, 2020). Independently, as broadly emphasized by the literature, the economic agenda put in place after the removal of Rousseff was oriented toward a retrenchment of the government's autonomy over fiscal policy: at the end of 2016, the just inducted Michel Temer's government engaged in the effort to approve the Constitutional Amendment nº 95/2016 which imposed a "no real growth" cap for government expenditures for twenty years (Dweck et al., 2022, p.21; Orair & Gobetti, 2017).

Indeed, Rousseff's government faced a significant fiscal deterioration during its last years. According to Orair and Gobetti (2017, p.13), "the average primary surpluses of 2.8 per cent of GDP between 2005 and 2013 transformed into a 2.5 GDP deficit in 2016 […]" which implied a "rapid rise of net debt in Brazil, which between 2014 and 2016 increased 13.3 percentage points as a proportion of GDP (from 32.6 per cent to 45.9 per cent), more than triple the primary deficit accumulated during this brief period". Nevertheless, this situation was not representative of the fiscal policy performance during most part of the Workers' Party administrations. Between 2004 and 2013, the government sustained primary surpluses that were larger than in other economies, being praised by international credit rating agencies (Orair & Gobetti, 2017; Serrano & Pimentel, 2017).

Therefore, the political crisis that accompanied fiscal deterioration in Rousseff's government might have indicated that distributive tensions were at stake. As suggested by analyses on the political economy of the period, a rising wage share during the Workers' Party administration would have gradually led to a profit squeeze situation (Saramago et al., 2018; Marquetti et al., 2020; Martins & Rugitsky, 2021). Although the government moved to accommodate rising capitalist demands via fiscal policy (tax incentives and subsidies), it was not enough to detain profitability from falling or sustain private investment. Faced with a rising bargaining power of workers, capitalists would have then recurred to political action, forcing the government to cut down expenditures to diminish pressures over their gains or to contain generalized social uprising as similarly put by Kalecki (1943).

Other authors, however, disagree on the nexus between falling profitability and lower investment rates. Serrano and Summa (2018) argue that it was the turnover in fiscal policy towards austerity in 2015 that hit aggregate demand and drove the economy down: "the deceleration of private companies' investment growth seemed to have been caused by the fall in aggregate demand growth" (Serrano & Summa, 2018, p. 186). Nonetheless, it does not mean that the capitalist class did not react politically to the distributive conflict. In this case, the reaction would have been motivated by the consequences of changes in the Brazilian labour market between 2004 and 2014, which implied an "accented fall in the rate of unemployment and other social and institutional elements that increased the workers' bargaining power way more than expected" (Serrano & Summa, 2018, p. 177). Dweck and Teixeira (2017) follow the same argument and affirm that labour market transformations were at the roots of the political economy of fiscal policy in Brazil during the Workers' Party administrations: distributive gains linked to falling unemployment, decreasing informality, and rising minimum wage payments would have provoked reactions to the role played by the state in labour market interventions.

The potential fiscal policy's influence on the distributive conflict is also identifiable by considering the impact of government spending and taxation during the period. Recent findings suggest that the economic boom that started in 2004 was accompanied by a pro-poor redistribution, even though some studies indicated a persistent inequality associated with the concentration of income appropriated in superior strata (Medeiros et al., 2018). Evidence concerning the three versions of the Brazilian consumer survey (*Pesquisa de Orçamentos Familiares (POF)* – 2002/2002, 2008/2009, 2017/2018*)* suggests that fiscal policy has been central to promote income redistribution and reduce inequality in the first two decades of this century. It occurred despite a regressive tax system – as personal income tax is not progressive enough to overcome the burden that indirect taxation produced on low-income strata – and mainly due to the growth of government expenditures during the period, especially concerning income transfers associated with social security and assistance, as well as the public provision of health and education services (Silveira, 2008; 2012; Silveira, Ferreira, Mostafa & Ribeiro, 2011; Silveira & Passos, 2017; Silveira, Passos, Silva & Palomo, 2020; Silveira, Palomo, Cardomingo & Carvalho, 2021; Cornelio, Palomo, Silveira & Tonon, 2022; Silveira and Palomo, forthcoming)[24].

[24] Regarding social transfers in Brazil, Silveira et al. (2020) conclude that progressivity was higher in the *Bolsa Família,* a cash transfer that was created (as a unification of other programs) and expanded in Lula's government. It represented 14 per cent of the total income of the poorest income decile according to the POF 2017/2018. Another program marked by progressivity was the *Benefício de Prestação Continuada* (BPC), an income transfer at the value of one minimum wage to the elderly above 65 years old and disabled people that earn equal or less than 25 per cent of a minimum wage. Progressivity in social security benefits varied according to the different pension schemes. Regarding the *Regime Geral da Previdência Social* (RGPS) – the general pension scheme associated with private workers - it demonstrated almost a neutral effect (but still progressive),

Moreover, changes in the labour market contributed to the redistributive effects of fiscal policy. A first channel was the sharp increase in the minimum wage between 2004 and 2014. A second was the significant expansion of formal employment during the same period. Both are related to redistributive mechanisms defined by the Brazilian 1988 Constitution, which assured that the value of social security (and part of social assistance) benefits must be anchored by the national minimum wage (Delgado, Jaccoud & Nogueira, 2009; Rangel, Pasinato, Silveira, Lopez & Mendonça, 2009). In the first years of the Workers' Party administrations, the labour movement pressured for the government's commitment to regular valorisations of the minimum wage. The response was a policy that established an annual readjustment considering inflation losses and the real growth in GDP from the previous year (Melo, Figueiredo, Mineiro & Mendonça., 2012). The real minimum wage grew from 700.04 reais in 2004 to 1180.41 reais in 2014 which implied that the average value of social security benefits increased by more than 2 per cent annually.

In addition, access to social security benefits in Brazil have been fundamentally dependent on the participation of workers in the formal labour market, or, as stated by Silveira et al. (2020), remain "based on the tripod 'affiliation – contribution – benefit'". From 2002 to 2014, labour informality fell more than 15 percentage points (Kerstenetzky & Machado, 2018) and social security contributors increased more than 50 per cent. Although the literature has attributed the boom in the formal labour market to a combination of factors – economic growth, size of firms, job expansion in certain sectors and institutional measures (Corseuil, Moura & Ramos, 2011; Corseuil & Foguel, 2016; Kersteneztky & Machado, 2018; Saboia, Hallak Neto, Simões & Dick, 2021) – there is little controversy on its influence on income redistribution. Maurizio (2015), for instance, estimates that Brazil's formalization boom implied a 9 per cent fall in the Gini index. Also, Dweck et al. (2022) refuse the job polarization hypothesis and indicate that the fall in unemployment was accompanied by the reduction in income inequality in the formal labour market during the 2004-2013 period.

Furthermore, the minimum wage effect also benefited informal workers "through what is known as the 'lighthouse effect', as well as employees whose wages were indexed to (low) multiples of the minimum wage and thus got readjusted" (Loureiro, 2019, p. 9; See also, Medeiros, 2015a). In addition, the impact on social security also implied a sharp increase in the total amount paid by the unemployment insurance programme and in the number of its

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while the *Regime Próprio da Previdência Social* (RPPS) - which refers to public servants - has been quite regressive.

beneficiaries[25]. In the end, Brito, Foguel and Kerstenetzky (2017, p.26) estimate that "considering all of the direct channels through which the minimum wage affected income distribution" its total contribution had been of 64.3 per cent from 1995 to 2014, in which the pension system accounted more than a half of it.

After 2014, economic recession and stagnation contributed to a turnover in those redistributive mechanisms. In 2016, the unemployment rate reached 2004 levels with informality increasing in all labour market positions (private and public sector, domestic and self-employed workers) (Baltar, 2020). As expected, the overall increase in informality implied a fall in the contributions to social security. Real gains in the minimum wage lasted until 2017 but as informality went up its effects were diminished, as it tends to produce less impact on non-formal, domestic, and self-employed workers (Saboia et al., 2021).

3.4 Fiscal policy determinants in Brazil from 2000 to 2019

According to the last section, fiscal policy has been able to affect income distribution through two main channels – directly, by government expenditures, specifically monetary and non-monetary income transfers; and indirectly, as policies that promoted wage gains and formal employment increased the value and the amount paid in benefits. Probably due to the indirect mechanism, as subtly suggested by Serrano and Summa (2018, p. 177), the impact on labour bargaining power was not evident at that time. The improvement in workers' income represented an "unexpected result of a mutually reinforcing interaction of a wide set of factors" which indicated the role played by the Brazilian state in the distributive conflict. Nevertheless, the political economy literature has not yet elaborated on how these channels have been mobilized. Was the redistributive fiscal policy a result of a deliberate political agenda, or was it only possible because of the economic growth? Did the institutional framework foster redistribution, or changes in institutions were necessary to produce the experienced effect?

This section attempts to address these queries by suggesting that the influence of the fiscal policy on the recent Brazilian distributive conflict can be better assessed as three types of determinants become explicit: i) the cyclical effect, which refers to the impact of domestic and international business cycles on the room for fiscal policy; ii) the institutional effect, which concerns the regulatory framework that conditions fiscal policy, either limiting or

[25] The paradoxical increase in both formal employment and unemployment insurance beneficiaries is attributed to flexible hiring and firing rules associated with the dominance of open-ended contracts (Baltar et al., 2010).

expanding its ability to favour or disfavour workers; and iii) the policy effect, or rather, the deliberate choices made by governments in office regarding tax and spending decisions, which tend to reflect specific economic agendas. Focusing on those elements, the following genealogy of fiscal policy management during the past two decades is based on a simple but functional periodization suggested by Orair and Gobetti (2017), which differentiates moments of expansionary (2005-2010; 2011-2014) and contractionary fiscal policy (2000-2004; 2015-2019).

The first period (2000-2004) started before Lula da Silva’s electoral victory in 2002 but lasted until the middle of his first term. It represented a transitional moment between the Brazilian economy's stabilization in the 1990s and the cycle of growth and distribution in the 2000s. A fundamental aspect of this period was the adoption of the macroeconomic tripod as the main policy framework. It entails the pursuit of inflation targets, restrained intervention in the exchange rate and the commitment to primary surpluses. In this new arrangement, fiscal policy was supposed to lose importance for aggregate demand control, while monetary policy would assume the responsibility of sustaining long-term growth (Nassif, Feijó & Araújo, 2020). The commitment to primary surpluses was possible by the approval of the Fiscal Responsibility Law (*Lei de Responsabilidade Fiscal - LFR*) in 2000 which institutionalized the need to achieve a primary surplus target. The *LRF* limits discretionary decisions over the government budget, especially regarding personnel expenses. (Giambiagi, 2011; Barbosa-Filho, 2018; Orair, 2021).

In terms of the economic activity, the period was particularly turbulent. Despite an average growth rate of 3 per cent, inflation was accelerating, the level of foreign exchange reserves was low, expectations concerning the first Lula’s presidential term led to a large currency depreciation and energy supply was constrained (Barbosa-Filho, 2008, 2018; Serrano & Summa, 2012; Biancarelli, 2014). To overcome the turmoil, Lula’s government reaffirmed the commitment with the macroeconomic tripod which implied the promotion of a fiscal adjustment in its first two years (Orair & Gobetti, 2017).

First, it promoted a tax reform in 2004, changing “the incidence of PIS-COFINS, from a cumulative sales tax to a partially cumulative partially value added tax” (Barbosa-Filho, 2008, p. 201; Werneck, 2006). Although it was supposed to have a neutral effect, the PIS-COFINS reformulation increased revenues from these contributions by 0.5 per cent of GDP. The government also managed to extend the validity of the *Contribuição Provisória Sobre Movimentação Financeira* (CPMF), a social contribution associated with financial transactions established in 1996. The CPMF's aliquot increased from 0.2 to 0.38 per cent (Brami-Celentano & Carvalho, 2007). Second, the government engaged in expenditure cuts, which focused mainly on public employees' compensations, social benefits, and public investments (Barbosa-Filho, 2008; Orair; Gobetti, 2017). Also, in 2003, a reform in the pension system implied a reduction in its fiscal burden[26] (Marques & Mendes, 2004; Nakahodo & Savoia, 2008; Marques, Ximenes & Ugino, 2018).

The contractionary fiscal policy in the 2003-2004 period was praised by market segments and strongly criticized by the government's supporters (Paulani, 2003; Boito, 2003). However, these first years of contraction were not enough to characterize the first Lula government fiscal policy as austere. After 2004, the government compensated for the rising tax revenues with growing expenditures. The main driver of this process was the income transfers to households, which increased more than 1.5 per cent of the GDP. Hence, according to Barbosa-Filho (2008, p. 202), fiscal policy under Lula's first mandate (2003-2006) opted to prioritize a "social safety net rather than […] economic infrastructure".

The fiscal expansion period in Lula's administration went from 2005 to 2010. There is little controversy on the cyclical determinants of the rise in public expenditures during these years: from 2005 to 2008, the Brazilian economy experienced its most prolonged expansion phase since the 1980s, in which the output growth reached an annual average rate of 4.6 per cent (Martins & Rugitsky, 2021). While in the beginning, rising exports fuelled by favourable international conditions (such as the commodity price boom and the fall in interest rates) led to the boom, economic activity later relied on the increase in private consumption demand and public and private-induced investment. It occurred after 2006 when the reorientation towards an expansionary fiscal policy began to positively affect aggregate demand (Serrano & Summa, 2012).

On one side, it is true that the expansionary fiscal policy was motivated by the cycle: the rising trend in tax revenues allowed the government to increase expenditures without pressures on primary results. This was possible despite the primary surplus targets required by the LRF, as explained by Serrano and Summa (2012, p. 75): "if primary spending is increased, taxation is increased by the full amount of the initial increase in spending – or even somewhat more – the net effect on aggregate and income can still be positive". On the other, when the 2008 international financial crisis hit the Brazilian economy and forced growth of

[26] The main changes referred to the public servant pension scheme (RPPS), seeking to reduce its differences with the RGPS (private workers' pension scheme). Moreover, a controversial measure referred to the adoption of a contribution rate of 11 per cent for already retired workers

the real output down in 2009 (from 5 per cent in 2008 to -0.13 per cent), Lula's government opted for a countercyclical reaction through a policy mix that relied on public spending increases (De Paula, Modenesi & Pires, 2015). Consequently, in 2010, the economy hit its highest annual real output growth rate for the whole 2000-2019 period (7.5 per cent).

Fiscal policy decisions during Lula's government managed to take advantage of the business cycle and overcome some institutional constraints. The effort to reduce poverty, for instance, relied mainly on the *Bolsa Familia*, an income transfer program with relatively low costs (around 0.5 per cent of GDP between 2003 and 2013) (Campello & Neri, 2013). Another example was the amplified impact of the minimum wage via pension system as more Brazilians accessed the social security system. An important driver to that was the "second-best" formalization mechanism, which resulted from institutional changes in the regulation of domestic and self-employed labour (Kerstenetzky & Machado, 2018).[27] Moreover, it managed to approve a punctual change in budget laws that authorized the removal of capital expenditures from surplus requirements, opening room for increasing public investments (Chernavsky et al., 2020; Serrano & Summa, 2015).

The election of Dilma Rousseff inaugurated a new moment for the expansionary fiscal policy (2011-2014). In this period, not only the international economy was facing difficulties that were previously absent, but macropolicy decisions in Brazil relied on different mechanisms than those employed until then. As for the international conditioners, the period was affected by the persistent effects of the 2008 financial crisis. The consequence was a contraction of the Brazilian external sector: exports increased only 2.9 per cent in 2011, contrasting with the 9.5 per cent growth in 2010. Despite the global economy retrenchment, international prices had recovered from the 2008 blow and increased consistently until mid-2011. This movement provoked inflationary pressures over Brazilian exported and imported products, even with a consistent appreciation of the Brazilian exchange rate. After 2011, the euro crisis and the deceleration of the Chinese economy contributed to international price stabilization but reinforced the retreat in external demand (Serrano & Summa; 2012; 2015; Paula et al., 2015; Barbosa-Filho, 2018).

This external context was relevant to the choices concerning fiscal policy. As the exceptional performance of the Brazilian economy in 2010 coincided with the inflationary pressures that originated from international prices, the newly elected government decided to

[27] According to Kerstenetzky and Machado (2018, p.12), the "second-best formalization" implied access to social security benefits but without the assurance of labour rights through legal contracts. However, the main contribution to the formal employment boom originated from the "full-blown formalization", in which labour rights assure access to social security benefits.

engage in fiscal efforts to control aggregate demand and reduce inflation. Consequently, "the primary fiscal surplus increased from 2.8 of GDP in December 2010 to 3.7 per cent in August 2011" (Paula et al., 2015, p.418). The government managed to conserve fiscal surpluses until mid-2012, when Rousseff's administration opted for a "pragmatic tactic of favouring fiscal stimuli that were supposed to put less pressure on inflation, such as tax cuts, or on the primary surplus, such as credit subsidies operated outside the budget" (Orair & Gobetti, 2017, p.8)[28]. Fundamentally, it meant the change for a tax-oriented fiscal expansion. The provision of tax incentives to the private sector aimed at the increase of competitiveness of the domestic industrial sector affected by currency appreciation. It included a reduction in industrialized goods tax and exemptions from payroll tax in some strategic sectors, later extended to the production of several goods and services (Paula et al., 2015; Gentil & Herman, 2017).

Nevertheless, the chosen path did not manage to reproduce the dynamism of the previous administrations: between 2011 and 2014, the annual average real growth rate (2.35 per cent) was lower than those of Lula's first and second terms (3.5 and 4.6 per cent, respectively). The same was true for fiscal results. After 2011, the primary surplus became more and more reduced, and in 2014, Brazil reached a 0.3 per cent deficit, the worst primary result since 1999 (Gobetti, 2015). Some interpretations attribute these figures to fiscal policy misconduct. First, it was possible that the fiscal adjustment of 2011 might have been too rigid, as it stemmed from the erroneous interpretation that inflationary pressures were due to excesses in aggregate demand (Serrano & Summa, 2015; 2018). Serrano and Summa (2015, p.821) highlight that, in 2011, the high primary surplus target was obtained at the expense of public investments and, as a result, investments from "central government and state-owned companies in 2011[…] decreased 17.9% and 7.8% per cent respectively".

Second, the government response to the 2012 eurozone crisis might have come too late and not been strong enough (Paula et al., 2015). Third, the preference for a tax-oriented expansionary fiscal policy did not produce the expected effect on private investment, and the fall in revenues contributed to pressures over the national budget (Orair & Gobetti, 2017). Last but not least, the primary result targets were excessively high and forced the government to engage in non-conventional accounting practices that employed operations with public

[28] As suggested by various interpretations, the commitment to higher levels of fiscal surplus also derived from a government's particular view on the adequate macroeconomic path to foster higher growth rates. Since the economy had been "relying too much on household consumption and […] private investments were constrained by the overvalued currency and high interest rates" (Orair & Gobetti, 2017, p.7), easing monetary policy was the chosen measure for investment to take off, but it would only be possible with a fall in aggregate demand and fiscal rearrangement.

companies (Petrobrás) and state-owned banks resources – the so-called *pedaladas fiscais*. Badly communicated, these accounting practices increased the mistrust among private agents regarding the government's real ability to meet its own fiscal commitments (Orair & Gobetti, 2017; Barbosa-Filho, 2018).

Still, it would be inaccurate to assume that Rousseff's fiscal policy in the 2011-2014 period had divorced itself from Lula's distributive aim via social benefits and public service provisions[29]. Chernavsky et al. (2020) show that the worsening of the fiscal result that followed 2011 was mainly led by the fall in revenues, as primary expenditures remained stable as a share of GDP despite the lower growth rates in main spending categories. Specifically, the government increased spending on social benefits, health, and education. Public investment remained stable but was kept at a historically high level if compared to prior decades. As done by Lula's administration, Rousseff's government also employed the available institutional mechanisms to remove investments from the primary surplus calculation. In addition, the minimum wage policy was maintained (despite the negligible increase from 2010 to 2011), and formal employment continued to rise, although presenting lower rates in the 2013-2014 period (Serrano & Summa, 2015; Gentil & Hermann, 2017).

Therefore, the contribution of fiscal policy to the intertwined economic and budgetary deterioration that began in 2014 can be interpreted in a more contingent way. On the expenditure side, as remembered by Gobetti (2015), one should recognize that Lula's eight-year administrations produced structural changes in the size of government spending. Investments in infrastructure (in public education and health facilities, for example) implied the existence of new perennial maintenance costs to the public sector. Also, formal labour market expansion and the increasing minimum wage meant an inevitable increase in social security costs.

Moreover, the mechanisms employed to sustain the aggregate demand growth during Lula's two mandates began to show signs of exhaustion[30]. Therefore, from 2011 to 2014,

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[29] Some authors contest this interpretation by arguing that, regardless of the size of fiscal policy, Rousseff's administration was responsible for deepening the process of commodification of Brazilian public services. For these critics, this had been a characteristic of the whole Worker's Party administration, noticeable not only by the number of incentives given to health and education private institutions but also by the option for a consumption-led growth strategy fundamentally associated with the rise of household indebtedness. Some suggest that, in the end, the almost 14-year administration of the Workers' Party did not contest neoliberalism. See, for example, Lavinas (2017), Gentil and Hermann (2017), Loureiro and Saad-Filho (2018), Loureiro (2019).

[30] Rezende (2016) demonstrated that levels of indebtedness of non-financial companies in Brazil reached critical values in 2013. The end of a debt cycle is also indicated for the household sector, as the ratio that expresses the annual compromise of households' income with indebtedness (excluding habitation credit) recorded 27 per cent at the end of 2011 and remained stable until 2013. The slowdown in the formalization boom also meant a reduction in the growth of social security contributions.

fiscal policy was conditioned to a very different economic juncture compared to the previous period, both domestically and externally. In this case, interpretations pointed to both the cyclical downturn and Rousseff's fiscal policy misguidance as the causes of the fall in growth rates. It is a fact, however, that the deceleration was central to bring tax revenues down and amplify the deterioration of primary results. In parallel, the rising trend in expenditures via indirect and direct mechanisms represented a long-standing cost to the national budget.

The last period (2015-2019) included three different governments – the unfinished second term of Dilma Rousseff (2015-2016), which was interrupted by an impeachment; the mandate of former vice-president Michel Temer (2016-2017), and the beginning of the far-right administration of Jair Bolsonaro (2019-2022). Rousseff was re-elected in 2014 amid rising social discontentment and opted to reorient fiscal policy to regain market confidence[31]. In 2015, the government engaged in a large fiscal adjustment focused to control rising public debt ratio. It cut expenditures in investments and subsidies and increased taxes on financial revenues, some industrial goods, and exports. Moreover, it proposed alterations in the 1990 legislation on the payment of unemployment benefits by extending the minimum time requirements for unemployed workers. Finally, the government rapidly removed the price controls on fuels that have been adopted. Severely executed, the fiscal consolidation did not manage to restore primary surpluses and contributed to the exchange rate depreciation. Combined with the release of price controls, this was also responsible for the increase in inflation, which fostered a contractionary monetary response (Arestis, Ferrari-Filho, Resende & Terra, 2021). Therefore, the 2015-2016 period was strongly recessive (the real GDP growth rate hit -3.55 per cent in 2015 and -3.28 per cent in 2016). The unemployment rate surged in 2016, primarily affecting formal employees of the private sector (Saboia et al., 2021; Baltar, 2020).

Rousseff's removal from presidency did not change considerably the policy agenda on fiscal consolidation. Nevertheless, the significant alteration in fiscal policy in the 2017-2019 came from shifts in its underlying institutional framework, which was fundamentally reorganized as the Workers' Party left the government. A few months before Rousseff's impeachment, vice-president Michel Temer's party published a document entitled *"Bridge to the Future"*, in which it anticipated the orientation of his future government. The document stated that the fiscal crisis was "the most important obstacle to the restoration of economic

[31] In June 2013, Rousseff government faced a politically destabilizing moment as millions of Brazilians engaged in protests that were initially oriented towards the rise in transit fares and the cost of public transportation (See Purdy, 2019).

growth" and affirmed that the Brazilian fiscal problem could not be solved "even if we changed the way of governing", suggesting that the only way to fix it would be to "change laws and even constitutional norms, without which the fiscal crisis will always come back" (p. 5-6).

Indeed, Temer administration (August 2016-2018) managed to approve two fundamental reforms that structurally affected fiscal policy. First, in 2016, it introduced the largest change in Brazilian fiscal legislation since the adoption of the LRF. The so-called New Fiscal Regime (NFR), instituted via constitutional amendment, established an expenditure rule that has limited real spending growth from 2017 to 2037. Following this, the central government's primary expenses were allowed to grow only according to the inflation rate of the former year (Dweck et al., 2022; Arestis et al., 2021). As argued by some specialists, it was a matter of time before the expenditure rule proposed to reach its limits, as a large part of the Brazilian expenditures (public health and education, for example) are constitutionally determined as specific shares of the national budget (Rossi & Dweck, 2016; Rossi, Oliveira, Arantes & Dweck, 2019). Indeed, the recent debate has demonstrated convergence towards the need to reconsider the format of the expenditure role imposed by the LRF among economists from quite different approaches[32].

Following the agenda defined in the *"Bridge to the Future"*, Temer's administration also reviewed Brazilian labour legislation, approving the most significant reform in labour laws since the 1940s. Law 13,467/2017 focused on rearranging the labour market of salaried urban workers employed in the private sector. In theory, it envisioned the creation of new jobs, the concomitant reduction in informality and subtilization of the labour force, falling labour costs and conflicts (Campos, 2017). However, to fulfil these commitments, it proposed new forms of labour contracts or the modification of some that already existed. In short, the reform authorized the division of working day and intermittent contracts, amplified the possibility of subcontracting workers, favoured individual negotiation vis-à-vis collective bargaining, and previewed the reduction of the benefits paid in case of contract extinction. It also removed the mandatory contribution to unions and extinguished the need for the judiciary to monitor contract terminations, leaving the burden of eventual legal costs to the individual worker. Campos (2017) stresses that the emphasis on subcontracting potentially implies an increase in wage disparities, as subcontracted workers tend to earn considerably less.

[32] This topic has gained importance, for instance, as fiscal measures were necessary to confront the Covid-19 pandemic. See, for instance: https://www.ft.com/content/638ae6a7-f0b0-469f-8eae-5c50149d4e6e

As discussed in Carvalho (2017), intermittent and temporary contracts liberate the labour force to work on demand and to several employers, which tend to favour informal relations. Besides, the further demobilization of the union movement appeared as a future consequence, as the law did not offer alternatives to the end of mandatory contributions[33]. The removal of the legal support to workers suggested a growing distance of the state apparatus from the possible conflictive dynamics between capital and labour, relegating its action to guaranteeing the legal-formal aspect of relations (Carvalho, 2017; Campos, 2017; Passos, Silveira & Waltenberg, 2020). In the end, the 2017-2019 period presented an annual average real GDP growth rate of 1.44 per cent with the labour market showing signs of recovery, but mainly manifested among self-employed and domestic workers. As formal employment in the private sector continued the falling trend of the previous period, rising informality was the footprint of the slight recovery in employment levels (Baltar, 2020).

Finally, at the end of 2016, the Temer government also proposed a reform in the Brazilian pension system. Although rejected by the National Congress in 2018, the proposal pointed to a consistent alteration in the social security scheme consolidated since the 1988 Constitution. One of the main changes concerned the removal of the right to retire based only on the time of contribution, which had its minimum reduced from 35 to 25 years but combined with a minimum age criterion – the same 65 years old for all categories (men and woman, rural and urban workers, public servants, and private workers). Another significant alteration was the elimination of the link of some benefits to the minimum wage value, such as the BPC (see note 2) and sick pay benefits. Regarding the BPC, it also proposed to increase the age requirement from 65 to 70 years and remove regular price readjustments according to inflation (Nery, 2016; Giambiagi, Pinto & Rothmuller, 2018).

The election of Bolsonaro in 2019 created momentum for the pension system reform. In March 2019, during a speech for industry leaders in São Paulo, vice-president General Hamilton Mourão gave the tone of the government policy agenda. He stated that it was time for Brazil to get rid of some "sacred cows" (real valorisation of the minimum wage and the minimum age requirements for the BPC) by "reviewing the social contract established by the 1988 Constitution", even if it meant to "face unpopular measures".[34] According to Fagnani

[33] A recent empirical evaluation of the effects produced by labour reform points to its inability to generate the expected changes in the labour market. By applying a synthetic control method, Serra, Bottega and Sanches (2022) did not find statistical relevance in the impact of the 2017 labour reform on the unemployment rate.

[34] The vice-president's discourse is resumed at the following article: https://gauchazh.clicrbs.com.br/economia/noticia/2019/03/mourao-chama-reajuste-do-minimo-pela-inflacao-e-bpc-de-vacas-sagradas-cjtqeaolr011h01prul2obqo8.html

(2021, p.31), this was precisely the tone of the Constitutional Amendment Proposal n.6/2019, as it sought to review the constitutional status of social security rights by introducing "transitory guidelines" that presupposed further government regulation via complementary laws, more susceptible to political bias.

In its original version, Bolsonaro's pension reform advocated for consistent changes, such as the introduction of funded schemes, the suspension of the mandatory inflation readjustments in pension benefits, the end of differentiation between rural and urban pension schemes, the possibility to reconsider (with no limit) the minimum age requirements as the demographic indicators change, and the potential reduction of the government contributions to social security, essentially relegating them to employers and employees. In addition, the proposal suggested to reconsider the minimum wage as the baseline of benefits such as the BPC, pension for death, and the *abono salarial*[35]. Despite being changed by the Congress, the reform assured the end of the right to retire by the time of contribution, the increase of minimum age requirement to 65 years for men and 62 for women and, most importantly, the removal of the constitutional status for the pension system rules, which became subject to complementary laws (DIEESE, 2019; Saad-Filho, 2020; Fagnani, 2021).

3.5 Estimating the net social wage for Brazil (2000-2019): method, data, and results

The past sections aimed at a detailed description of fiscal policy's trajectory in the two first decades of the 21st century in Brazil. While it has been argued that changes in government expenditures and tax revenues might have contributed to the intensification of the distributive conflict, this hypothesis still lacks a more specific empirical assessment. Following the literature discussed on section 3.2, this section estimates the net social wage for Brazil from 2000 to 2019 in order to analyse the degree of Brazilian fiscal policy's pro-labour orientation during the period.

As previously discussed, the net social wage represents the government's fiscal policy net result concerning the exclusive provisions for the working class. It is possible to estimate the net social wage by deducting the total tax revenues paid by workers (T) from total government expenditures that benefit them (E):

[35] The *abono salarial* is a salary allowance guaranteed to workers who receive an average of up to two minimum wages monthly. The payment is offered by employees that are hired by contributors of PIS or PASEP. The maximum value for the *abono salarial* is one minimum wage.

$$NSW = E - T \tag{7}$$

In this case, the working class represents the sum of individuals that receive remuneration from selling their labour force and do not have “the ownership of capital as a principal income source”, being receivers of wages, salaries, and pensions mainly (Shaikh & Tonak, 2000, p. 248; Maniatis & Passas, 2018). Despite its obvious reference to Marxian theory, this definition is operational and stems from the division of national income between labour and capital. Therefore, it entails that the net social wage literature keeps the understanding of the working class away from more theoretical debates on the particularities of social classes and relations.

Even so, this definition of working class serves the purposes of the estimation: as a mechanism capable of intervening in distribution, fiscal policy can affect the position occupied by the labour force in the class conflict by changing the costs of its reproduction (Bowles & Gintis, 1982; Shaikh & Tonak, 1987). Following this, a rising net social wage implies that growing state provisions are increasingly absorbing the reproductive costs of labour. Consequently, workers rely less on the income obtained directly via labour market to bear these costs. Therefore, the main point of the net social wage estimation concerns the identification of whether fiscal policy net result is redistributive in a pro-labour way, referring “not only to the share of the tax burden or government transfer to the capitalist class, but also the states’ own absorption of tax revenues for defraying costs of social reproduction as well” (Shaikh & Tonak, 1987).

Moreover, the estimation method for the net social wage presented in Tonak (1984) became the point of departure for other authors’ calculations, but some methodological divergences have arisen (Reveley, 2006; Maniatis, 2014; Moos, 2019). For the purposes of the present work, one must be aware that these divergences are not irrelevant: a simple alteration concerning data or definitions can modify the conclusions on the role played by fiscal policy in mediating distributive conflict. For instance, a positive and a negative net social wage represent quite different situations – while the former suggests that the fiscal policy benefits the working class, the latter indicates the exact opposite. Following already existent estimations of the net social wage in developed economies, it is not uncommon for expenditures and taxes to move side-by-side, which produces a near-zero net social wage. Thus, results must be cautiously interpreted, despite the risk of understating the redistributive meaning that arises from a positive or a negative net social wage. Nonetheless, a more reasonable analytical utilization of the net social wage estimation focuses not specifically on its positive or negative signal but on its trend during a period, as well as on the behaviour of its components (Moos, 2019).

Another methodological challenge involves the identification of which expenditures and taxes are associated with the working class. In general, the literature consents that government spending must be expressed by budgetary function and separated by its role in the social reproduction of workers and capitalists (Tonak, 1987; Maniatis & Passas, 2018). Regarding workers, the net social wage expenditures include all functions that "directly support labour income or consumption" (Tonak, 1987, p. 58), which excludes not only the direct provision to capital accumulation (such as subsidies or credit on agriculture and industry) but also that type of spending focused on sustaining capitalist institutional and political structure. This last group includes functions such as the administrative costs with the legislative, executive, and judicial powers; international affairs, defence, and national security (Tonak, 1984; Shaikh & Tonak, 1987, 2000)[36].

By excluding these non-labour-associated categories, total net social wage expenditures (E) are split into two components. The first, E_1, aggregates all spending categories that affect labour income straightforwardly. It refers mostly to monetary transfers associated with pension benefits, social assistance services, unemployment insurance, and other income categories originally associated with the history of labour struggle. The second, E_2, refers to expenditures that originate from collective consumption. E_2 is mostly constituted by the so-called non-monetary transfers (public health, public education) and other fundamental categories to social reproduction (energy, public transportation, sewage systems, etc.). The net social wage literature does not consider that these expenditures are entirely provided to workers and proposes that their participation in labour income should be proportional to the share of wages and salaries in total income (WS). Therefore, total labour-associated expenditures are defined as a share of total expenditures in these categories (E_2^*):

$$E = E_1 + E_2 \,, being \;\; E_2 = E_2^* * WS \tag{8}$$

[36] Regarding the Brazilian case, the government expenditure functions that are non-labour functions are Legislative Power, Judicial Power, Essential to Justice, Administration, National Defence, Public Security, External Affairs, Industry, Trade and Services, and Special Charges. Tonak (1984) and Maniatis and Passas (2018) discuss the reasons for not considering them.

At this point, it is important to stress a significant caveat. Although the literature extensively applies the wage share to estimate E_2, it entails two fundamental problems. Methodologically, it produces a fundamental endogeneity problem, as a rising wage share might be a result of the fiscal policy effects. Moreover, it theoretically entails that an increasing wage share is directly associated with a larger appropriation by the working class of those expenditures, a premise that does not necessarily hold. Therefore, the use of the wage share of income can consistently bias the net social wage estimation. The present effort sticks to the conventional method of employing the wage share of income but indicates that future research should focus on developing alternative mechanisms.

Back to the net social wage estimation, the same logic of employing the wage share of income is extended to identify tax categories that are incident on labour and non-labour income:

$$T = T_1 + T_2 + IT, in\ which\ T_2 = T_2^* * WS\ and\ IT = IT^* * WS \quad (9)$$

Excluding all categories that are directly incident on capital income (corporate tax, tax on capital gains, inheritance tax, wealth tax, etc.), tax revenues originating from labour income are divided into three components. First, T_1 refers to revenues from the direct taxation of workers. They correspond to the contributions to social security and other social and economic contributions that are paid by both employers and employees. As pointed out by Tonak (1984, p.55), “both parts constitute a portion of the cost of labour to the employer […] as part of wage bill, i.e., as part of nominal variable capital”. Contributions, therefore, are deducted from labour income, regardless of whether who pays them is the capitalist or the working class (Shaikh & Tonak, 1987)[37]. Second, T_2^* corresponds to other direct tax revenues, which burden is shared by the whole population, being personal income tax the main example. T_2 is obtained from the multiplication of T_2^* by the wage share.

Finally, IT^*corresponds to revenues originating from indirect taxation or taxes over consumption. There is a debate on how to estimate the share of indirect taxation that affects workers, since it impacts distribution not only via changes in post-tax income, but also through price channels, which are more complicated to identify and estimate (Moos, 2019). Shaikh and Tonak (1987; 2000), for instance, do not consider indirect taxation in their estimation as they argue that the embedded endogeneity of consumption taxes precludes

[37] Other approaches adopt the same methodological choice regarding social and economic contributions. See, for example, Morgan’s (2017) effort on constructing the Distributive National Accounts (DINA) for Brazil.

reasonable conclusions on their distribute effects. Other authors, however, understate the price effects over the distribution and opt to include a share of indirect tax revenue that is proportional to the wage share of income (Sepehri & Cristomas, 1992; Akram-Lodhi, 1996; Maniatis, 2014; Moos, 2019) [38]. Moos and Qi (2022, p. 6) state that "whether or not multiplying T_3 [IT, in this case] by the labour share is an appropriate method for imputing labour's share of indirect taxes remain unanswered", but stress that indirect taxes are subject to the dispute between capital and labour over the share of national income, which affect price dynamics. Consequently, there would be a plausible economic reason to justify the use of the wage share in this case.

At this point, a few remarks on the available data for Brazil are necessary. Despite the existence of more than one source of Brazilian fiscal data that allows the disaggregation of expenditures and taxes, none is perfectly adaptable to the net social wage estimation method[39]. Regarding the purposes of this article, the most suitable source consists of the consolidation of public sector accounts, or *Balanço Nacional do Setor Público* (*BSPN*), publicized by the Brazilian National Treasury. The BSPN contains annual data on expenditures by function and taxes by category for the 2000-2019 period, considering local, state, and national government. The wage share is obtained from the System of National Accounts (SNA-Brazil) and includes total employees' compensation and a share of total mixed income (Gollin, 2002; Martins & Rugitsky, 2021).

Some caveats concerning BSPN data deserve attention. First, as it depends on information sent by local and state administrations, discrepancies may arise due to irregular fluxes of data from these instances. Second, methodological changes applied in 2012 demand the compatibilization of data from the 2000-2012 period and the 2013-2019 period. In the latter, for instance, income tax revenues are divided between personal and corporate categories, a differentiation that does not occur in the former. Consequently, it complicates the precise identification of capital and labour contributions to income tax revenues. In addition, the 2013 BSPN edition only disaggregates tax revenues into a few categories. The

[38] Reveley (2006) adopts an unusual adaptation that considers indirect tax revenues proportionally to the ratio between employee's compensations and total consumption in the economy.

[39] The sources present advantages and disadvantages regarding the available period, information details, international comparison and scope of government (local, state and national). Some of the sources used in alternative scenarios were the *Classificação das Funções do Governo (COFOG)* and the *Resultado do Tesouro Nacional (RTN)*.

solution was to fill the missing data by using an average between the 2012 and 2014 representative shares of each tax category.[40]

Finally, there is a caveat regarding local and state fiscal results. As stated, the net social wage expresses the degree of the state intervention in distributive conflict. Following this, the more adequate would be to consider the fiscal result of the general government (which includes local, state, and national spheres), understanding it as an expression of the whole state apparatus. On the one hand, this could be problematic to the interpretation of the redistributive role of fiscal policy since the estimation would refer not only to the central government but also reflect regional circumstances. On the other hand, renouncing the general government approach would not only produce a theoretical inconsistency concerning the importance of the state apparatus but also underestimate the impact of indirect taxes, which are mainly redirected to local and state governments in Brazil.[41] As renouncing these indirect tax revenues would significantly bias the results, this estimation relies on Brazil's consolidated public sector. Table 6 resumes the expenditures and tax categories used to estimate the net social wage for Brazil.

Table 6- Net social wage components and correspondents in Brazil BSPN data

Component	**Meaning**	**BSPN correspondents**
E_1	Government spending entirely directed to workers	Social Security, Social Assistance, Citizen Rights, Housing, Labour Affairs, Agrarian Organization.
E_2	Government spending partially directed to workers	Education, Health, Culture and Leisure, Environment, Transportation, Energy, Communications, Sewage and Urban Affairs, Science and Technology
T_1	Taxes collected from labour income	Social and economic contributions and withholding income tax incident on employees' compensation
T_2^*	Taxes partially collected from labour income	Personal income tax, Urban property tax, Rural property tax, Motor Vehicle tax

[40] *Tax revenue originated from on labour income (T1)* are composed by the sum of social security contributions, payroll taxes and withholding income tax (from employee compensations). Data from Brazil's consolidation of public accounts only provides an aggregated value for the social contributions. Therefore, for the calculation of T1, social contributions are deducted from three components: i) *Contribuição Social sobre o Lucro Líquido* (*CSLL)*, which is incident on profits, ii) *PIS/PASEP*, which are incident on firms operating income, and iii) COFINS, which has the same incidence. Both *PIS/PASEP* and *COFINS* contributions are said to affect consumers, being incorporated in *IT*. The share of these three deducted components in social contributions is calculated according to data provided in Pires (2021). Also, BSPN does not offer a disaggregation of income tax data for the whole period. In this case, the share of withholding income tax incident on employees' compensation (IRRF-T) in total income tax is calculated from Brazilian Treasury data. In the end, T1 = social contributions - *CSLL - PIS/PASEP – COFINS* +IRRF-T.

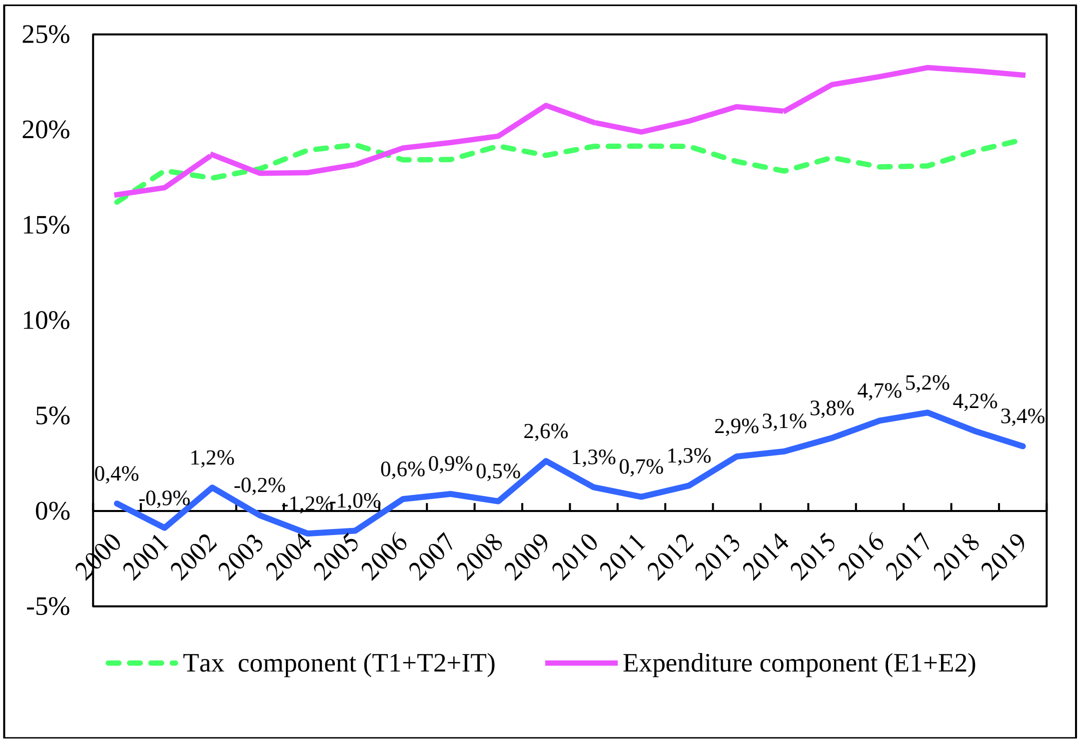
[41] An advantage, according to Orair and Gobetti (2010), is that tax collection in Brazil has concentrated in the central government, despite some recent trends pointing to the opposite way.

IT^*	Indirect taxes	Import taxes, taxes on services, taxes on industrialized products, taxes on the circulation of good and services, taxes on banking operations and contributions that affect consumers

Source: Shaikh & Tonak (1987), Consolidação das Contas Públicas Brasileiras, BSPN

Finally, Figure 4 presents the trajectories of the net social wage ratio (net social wage as a share of GDP and, from now on, NSW) and its two components ratio (expenditure and tax revenues as shares of GDP). The first relevant feature in Figure 4 refers to the gradual increase in the NSW from 2004 to 2017, years that indicate both its lowest (-1.18 per cent) and highest (5.16 per cent) mark[42]. Another noteworthy remark is that this rise in the NSW was more prominent in two periods: from 2005 to 2009 and from 2013 to 2017. In addition, Figure 4 shows that the elevation in the NSW is predominantly owed to the expenditure component. From 2000 to 2019, it went from 16.6 per cent to 22.9 per cent of the GDP. In contrast, the tax component demonstrated stability during the NSW increasing period, although it oscillated upwardly in the 2000-2004 period and downwardly from 2012 to 2014.

Figure 4 - Net social wage and its components as shares of GDP (2000-2019)

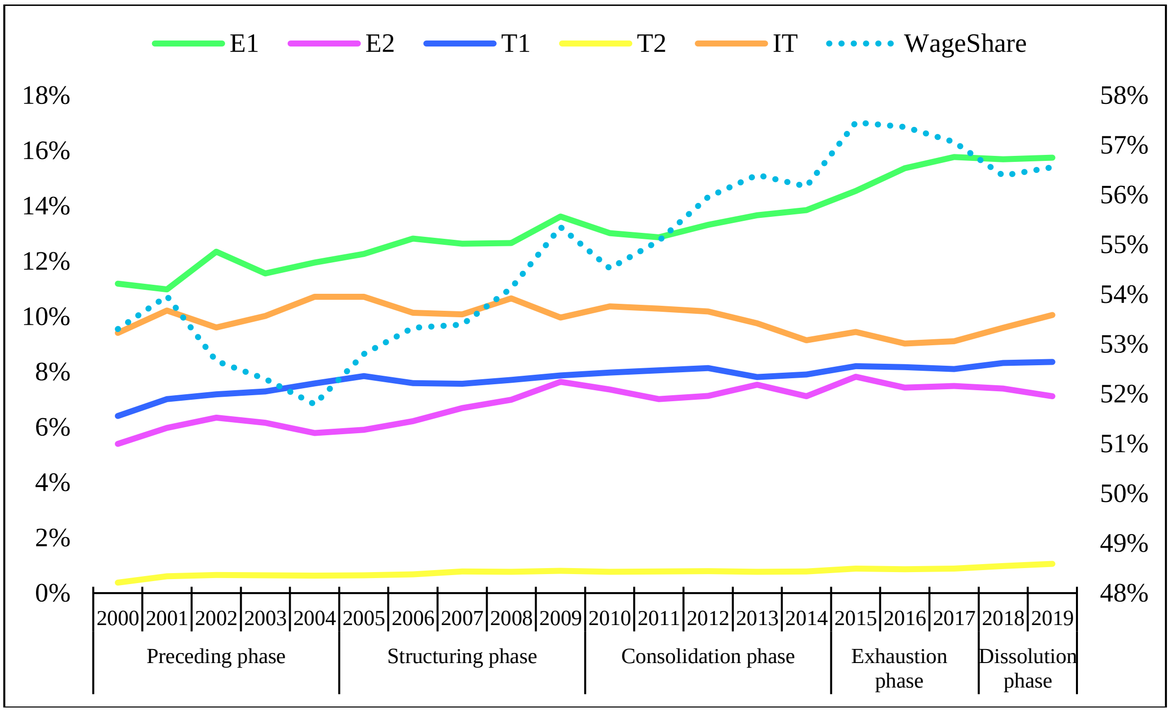


Source: BSPN, SNA-Brazil, Brazilian National Treasury and Pires (2021)

[42] The net social wage for Brazil converges with recent estimations for other countries, which indicate a growing positive value. Nevertheless, as discussed in the next section, the underlying reasons might differ (Maniatis & Passas, 2018; Moos, 2019; Moos & Qi, 2022; Fazeli; Fazeli & Shaikh, 2019; 2019a).

Figure 4 also indicates some preliminary conclusions on the redistributive role played by the fiscal policy in Brazil. First, the upward trend of the NSW converges with the argument that fiscal policy has become increasingly pro-labour-oriented during the past two decades. This trend has continued even with the reversion towards austerity that occurred in 2015, as the NSW had not fallen until 2018. When it finally decreased in the 2018-2019 period, the deterioration was not large enough to lead it back to 2014 levels and relied mainly on the tax component recovery.

Figure 5 - NSW tax and expenditure subcomponents as shares of GDP (2000-2019)



Source: BSPN, System of National Accounts - Brazil, IBGE, System of Time Series Management of the Brazilian Central Bank and Pires (2021)

Second, as stated by the literature, the net social wage is expected to behave as a countercyclical variable (Shaikh & Tonak, 1987; Moos, 2019). When the economy is booming, the decline in unemployment is likely to reduce the burden of the reproduction of the working class that falls on the state (it pushes down the costs with unemployment insurance, for instance). This relief in the spending side tend to be accompanied by an improvement in tax revenues, forcing a two-way drop in the net social wage. During crises, however, unemployment surges while fiscal space contracts by the fall in tax revenues. In this case, workers' demand for state provisions increases and the NSW tends to rise due to institutional mechanisms that assure the state's responsibility over the reproduction of the working class (by reacting to the automatic stabilizers, for example). In Brazil, however, the NSW trajectory has not been completely associated with the countercyclical hypothesis. Considering the two most significant periods of increase in the NSW, this divergence becomes evident: a rising NSW occurred in both the 2005-2009 economic boom and the 2013-2017 downturn.

Table 7- The net social wage for Brazil and its components

	NET SOCIAL WAGE										
	Expenditures				Tax revenues						NSW (%)
	E1/GDP	E1/E	E2/GDP	E2/E	T1/GDP	T1/T	T2/GDP	T2/T	IT/GDP	IT/T	
2000	11.19	67.47	5.40	32.53	6.41	39.55	0.38	2.34	9.41	58.11	0.39
2001	10.98	64.78	5.97	35.22	7.01	39.30	0.61	3.42	10.22	57.29	-0.89
2002	12.34	66.03	6.35	33.97	7.19	41.19	0.66	3.78	9.61	55.03	1.24
2003	11.57	65.27	6.16	34.73	7.29	40.61	0.64	3.56	10.02	55.82	-0.23
2004	11.96	67.36	5.79	32.64	7.58	40.05	0.63	3.35	10.72	56.61	-1.18
2005	12.27	67.52	5.90	32.48	7.85	40.86	0.64	3.35	10.72	55.79	-1.03
2006	12.83	67.35	6.22	32.65	7.59	41.22	0.68	3.71	10.14	55.07	0.63
2007	12.64	65.36	6.70	34.64	7.57	41.05	0.78	4.24	10.09	54.71	0.90
2008	12.66	64.41	6.99	35.59	7.71	40.28	0.77	4.01	10.66	55.71	0.52
2009	13.62	64.04	7.65	35.96	7.87	42.23	0.81	4.34	9.96	53.43	2.62
2010	13.01	63.86	7.37	36.14	7.98	41.73	0.78	4.06	10.37	54.21	1.26
2011	12.87	64.74	7.01	35.26	8.06	42.11	0.79	4.10	10.29	53.79	0.75
2012	13.32	65.11	7.14	34.89	8.14	42.56	0.80	4.18	10.18	53.26	1.33
2013	13.67	64.45	7.54	35.55	7.82	42.62	0.77	4.22	9.75	53.16	2.87
2014	13.85	66.04	7.12	33.96	7.91	44.36	0.78	4.38	9.14	51.26	3.13
2015	14.55	65.02	7.82	34.98	8.21	44.26	0.89	4.80	9.44	50.94	3.83
2016	15.36	67.40	7.43	32.60	8.17	45.24	0.86	4.77	9.03	49.99	4.74
2017	15.77	67.81	7.49	32.19	8.10	44.78	0.89	4.90	9.10	50.32	5.16
2018	15.69	67.95	7.40	32.05	8.32	44.04	0.98	5.20	9.59	50.76	4.19
2019	15.75	68.87	7.12	31.13	8.36	42.93	1.06	5.43	10.06	51.64	3.39

Source: BSPN, System of National Accounts - Brazil, IBGE, System of Time Series Management of the Brazilian Central Bank and Pires (2021)

Table 8- Other important macroeconomic variables

	Wage Income Share (%)	Real GDP Growth (%)	Formal employment index	Real minimum wage (BRL)	Unemployment insurance beneficiaries	Employed social security contributors	Fed. Govmnt. Primary result (% GDP)
2000	53.30	4.39	96.7	599.13	349,024	27,265,342	2.15
2001	53.97	1.39	99.6	653.56	391,563	29,767,846	1.72
2002	52.66	3.05	102.8	670.25	401,218	30,805,068	2.20
2003	52.31	1.14	105.9	674.92	416,248	31,454,564	2.27

2004	51.79	5.76	112.1	700.04	402,088	33,317,408	2.69
2005	52.81	3.20	119.8	748.78	451,165	35,935,331	2.58
2006	53.33	3.96	127.0	854.02	480,425	37,414,658	2.14
2007	53.40	6.07	134.9	905.64	516,276	40,226,058	2.21
2008	54.13	5.09	144.6	933.50	570,304	43,729,471	2.31
2009	55.36	-0.13	149.1	1000.91	621,988	45,193,098	1.29
2010	54.53	7.53	160.4	1054.08	612,158	48,649,216	2.04
2011	55.08	3.97	171.1	1055.01	653,902	51,681,597	2.14
2012	55.96	1.92	178.8	1143.89	650,981	53,912,656	1.80
2013	56.40	3.00	184.1	1172.03	692,927	55,687,889	1.44
2014	56.17	0.50	187.9	1180.41	708,275	56,625,128	-0.35
2015	57.46	-3.55	184.8	1175.61	641,951	54,656,148	-1.93
2016	57.37	-3.28	177.4	1200.37	599,681	51,624,976	-2.53
2017	57.06	1.32	174.4	1240.97	544,153	50,144,413	-1.79
2018	56.39	1.78	176.0	1228.37	520,767	52,566,404	-1.65
2019	56.56	1.22	178.6	1238.46	525,404	53,216,974	-1.20

Source: System of National Accounts - Brazil, IBGE, System of Time Series Management of the Brazilian Central Bank, Ipeadata, Brazilian Social Security data

Together with the resilient expenditure component's increase and the slow reversion of the NSW after the 2015 crisis, its behaviour vis-à-vis the business cycle suggests that an increasing redistributive fiscal policy in Brazil cannot be exclusively attributed to changes in policy or oscillations in economic activity. Following the discussion in Sections 3.3 and 3.4, Figure 5 indicates that part of the NSW upward trend might have relied on the role played by the institutional determinants. For the 2000-2019 period, social spending directed to workers (E1) was the NSW component that presented the most substantial expansion. Its consistent upward move contrasts with the other components' behaviour. The persistent rise in E1 has stemmed from the three main spending functions: "Social Security" (averaging 81.1 per cent of E1 from 2000 to 2019), "Social Assistance" (9.1 per cent) and "Labour Affairs" (6.8 per cent). These categories express allocations to pension benefits, income transfer programmes, unemployment insurance and other related benefits guaranteed by formal employment. It is also noteworthy that E1 began to increase before the wage share initiated its valorisation trajectory and was only exhausted three years after the critical moment for the profit squeeze in 2014 (Martins & Rugitsky, 2021).

These preliminary observations help characterise the role played by state redistribution for the intensification of the distributive conflict in Brazil: as it will be discussed in the following section, the NSW trajectory reinforces the interpretation that an unexpected redistributive pressure has contributed to the political reaction against expansionary fiscal policy after 2014 (Serrano & Summa, 2015; Dweck & Teixeira, 2017).

3.6 The NSW and the political economy of state redistribution in Brazil (2000-2019)

The upward trend in the NSW (2005-2017) coincided with most of the period that the Workers' Party was in the government (2003-2016). As previously stated, these administrations became widely acknowledged for reducing poverty and inequality in Brazil by expanding access to distributive social policies. Literature also consents to the favourable external and domestic economic conditions that allowed this process, which resulted, especially from 2004 to 2011, in the reduction of unemployment levels and consistent output growth. In that context, the intervention of the Brazilian state in the distributive conflict was at least manifested via two mechanisms: first, by a direct mediation of workers' income via cash transfers and, second, by an indirect interference entailed by the legal and institutional framework that affected labour market – mainly, the incentives to formal employment and the minimum wage valorisation policy.

Although one must not undermine the importance of counterbalancing forces on Brazilian state redistributive orientation, there is no reason to suppose that the rising trend in the NSW for Brazil shared the same determinants that, according to Moos (2019), led to a similar move in the US economy.[43] Instead of representing "the result of cyclical and structural threats to social reproduction, including prolonged joblessness, high healthcare costs, and degradation" (Moos, 2019, p. 21), the redistributive fiscal policy during the Workers' Party governments does not indicate "a set of residual interventions, obedient to neoliberal precepts of market precedence and of social safety nets" (Kerstenetzky, 2017, p.31). On the contrary, it could be interpreted (at least regarding the expenditure side) as an attempt to reach the pro-redistributive potential of the Constitution of 1988 (Kerstenetzky, 2017; Arrecthe, 2018).

[43] Some approaches emphasized that the reduction of poverty and inequality in Brazil has occurred alongside the financialization of social policy, the commodification of health and educational provisions, and the increasing reliance on household indebtedness (Sestelo, Cardoso, Braga, Matos & Andrietta, 2017; Lavinas, 2017; Lavinas & Gentil, 2018; Loureiro, 2019). According to Lavinas (2017, p.57) "*it less clear how redistribution and growth were integrated […] in terms of tax and fiscal policy and the social protection system per se [...]"*. Indeed, recent empirical evidence show that this caveat is not irrelevant (See, for example, Medeiros et al. (2015) and the first chapter of this document.

The NSW for Brazil in the past two decades illustrates the relative triumph of this attempt but also suggests that its limits relied on the intensification of the distributive conflict. The following discussion expresses the contradictions of the pro-redistribution process in the light of the NSW trajectory by dividing it into five phases: the *preceding phase* (2000-2004), the *structuring phase* (2005-2009), the *consolidation phase* (2010-2014), the *exhaustion phase* (2015-2017) and the *dissolution phase* (2018-2019) (Table 9 and Table 10).

Table 9 - Phases of the pro-redistribution attempt

	Preceding phase (2000-2004)	**Structuring phase (2005-2009)**	**Consolidation phase (2010-2014)**	**Exhaustion phase (2015-2017)**	**Dissolution phase (2018-2019)**
Average NSW	-0.13	0.73	1.87	4.83	3.79
Wage share	52.81	53.80	55.63	57.30	56.47
Real Minimum Wage (growth)	4.01	7.47	3.40	1.69	-0.10
Formal employment (growth)	3.76	5.88	4.77	-2.46	1.20
Real GDP growth	3.15	3.64	3.38	-1.84	1.50
Avg. primary result (% GDP)	2.21	2.11	1.41	-2.08	-1.43
Social security contributors (growth)	5.17	6.31	4.63	-3.96	3.03
Unemp. Insurance beneficiaries (growth)	3.75	9.14	2.69	-8.40	-1.70

Source: BSPN, IBGE, Pires (2021).

Table 10 - Net social wage components and subcomponents as share of GDP

		NSW components and Subcomponents (% GDP)				
		Preceding phase **(2000-2004)**	***Structuring phase*** **(2005-2009)**	***Consolidation phase*** **(2010-2014)**	***Exhaustion phase*** **(2015-2017)**	***Dissolution phase*** **(2018-2019)**
E1	Social Security	9.85%	10.36%	10.42%	12.16%	12.77%
	Social Assistance	0.72%	1.19%	1.44%	1.58%	1.59%
	Citizenship Rights	0.09%	0.17%	0.20%	0.21%	0.22%
	Housing	0.09%	0.15%	0.14%	0.08%	0.06%
	Work	0.75%	0.77%	1.04%	1.15%	1.05%
	Agrarian Organization	0.10%	0.17%	0.11%	0.05%	0.03%
E2	Education	2.31%	2.43%	2.75%	3.05%	2.92%
	Health	2.12%	2.46%	2.58%	2.93%	2.90%
	Culture and Leisure	0.10%	0.15%	0.17%	0.13%	0.12%
	Energy	0.11%	0.04%	0.02%	0.03%	0.03%

	Environment	0.09%	0.12%	0.13%	0.12%	0.12%
	Transportation	0.63%	0.64%	0.67%	0.51%	0.41%
	Communication	0.05%	0.02%	0.03%	0.02%	0.02%
	Sanitantion and Urban Renovation	0.44%	0.70%	0.74%	0.68%	0.66%
	Science and Technology	0.08%	0.12%	0.13%	0.11%	0.09%
T1	Social security contributions and payroll taxes	5.90%	6.39%	6.62%	6.61%	6.58%
T2	Withholding income tax incident on labour - IRRF-L	1.19%	1.33%	1.36%	1.55%	1.77%
	Personal income tax (IRPF)	0.16%	0.24%	0.28%	0.33%	0.34%
	Motor vehicle tax (IPVA)	0.19%	0.28%	0.27%	0.26%	0.30%
	Urban property tax (IPTU)	0.22%	0.21%	0.22%	0.28%	0.36%
	Rural property tax (ITR)	0.01%	0.01%	0.01%	0.01%	0.01%
IT	Tax on industrialized goods (IPI)	0.66%	0.58%	0.50%	0.42%	0.42%
	Tax on sales of goods and services (ICMS)	3.54%	3.70%	3.42%	3.05%	3.52%
	Import tax (II)	0.30%	0.25%	0.34%	0.31%	0.33%
	Tax on services (ISS)	0.26%	0.34%	0.44%	0.48%	0.51%
	Tax on financial operations (IOF)	0.14%	0.22%	0.35%	0.31%	0.30%
	Other contributions (PIS/COFINS/PASEP)	5.09%	5.22%	4.90%	4.61%	4.74%

Source: BSPN, IBGE, Pires (2021).

The ***preceding* phase *(2000-2004)*** coincided with a relatively stagnant period of the Brazilian economy with changes in the fiscal policy's institutional arrangement. The *preceding phase (2000-2004)* also coincided with the first two years of Lula's government, which, in terms of fiscal policy, was characterized by primary surpluses of 2.27 per cent of GDP in 2003 and 2.69 in 2004 (Table 8). As Figure 4 shows, the NSW fell sharply from 2002 to 2004 due to a faster rise in the tax component caused by the increase in IT and T1 shares (Figure 5). Thus, in 2004, the NSW reached its lowest level for the 2000-2019 period (-1.18 per cent)[44]. According to BSPN data, tax revenues from social security contributions (which represent the most significant category in T1) and PIS/COFINS/PASEP (the main component in IT) increased considerably in the period, indicating that tax system reforms were successful in improving government fiscal space. Therefore, the falling NSW suggests that fiscal efforts employed to assure elevated primary results were indeed incident on labour income,

[44] Following Maniatis and Passas (2018, p. 7), "the sign of the net social wage in each year denotes the positive or negative contribution of the state to the standard of living of the average worker". Nonetheless, one should not overestimate the negative results for Brazil: in 2000 and 2003, for example, the NSW was in a near-zero zone, which suggests a neutral intervention of the state in the distributive conflict.

supporting the criticism against the fact that Lula's adjustment reinforced the regressive tax system (Paulani, 2003; Brami-Celentano & Carvalho, 2007).

The fiscal adjustment also affected the expenditure component of the NSW. While both E1 and E2 shares increased from 2000 to 2002, the 2003-2004 period was characterized by a timid elevation in social spending (E1) and a sharp decrease in collective consumption (E2), forcing the expenditure component down. As argued in Barbosa-Filho (2008), the first years of Lula's government prioritized the expansion of the social safety net in detriment of other expenditures. Indeed, collective consumption (E2) contracted both as a share of GDP and in absolute values. However, the increase in E1 share was not higher than 0.5 percentage points, suggesting that primary surplus targets were actually the main focus. Even so, the reformulation of social assistance around the *Bolsa Familia* was central to changing the composition of "Social Assistance" spending: this function went from 4.1 to 8.1 per cent of total E1 expenditures in the 2000-2004 period (from 0.5 per cent to 1 per cent of Brazil's GDP). Finally, it is noticeable the increase in less representative spending functions that have been programmatically meaningful for a leftist agenda (for instance, "Agrarian Organization" and "Citizenship rights").

The ***structuring phase*** **(2005-2009)** coincided with the ascending phase of the business cycle, counting firstly on the rise in external demand and the commodities boom and afterwards on domestic demand incentives. According to Table 9, this phase presented the highest average output growth rate, the most significant expansion in the average formal employment and the most extensive average increase in the real minimum wage. In addition, the government managed to maintain a primary surplus of around 2 per cent of GDP until 2009, when it fell to 1.3 per cent. In addition, the NSW demonstrates a sustained growth from -1.18 to 2.62 per cent of the GDP, reverting the downward trend that marked the first two years of Lula's government. A turnover also occurred with the wage share (Figure 5), initiating an elevation trajectory that would last until 2015.

Differently from the previous period, the main driver of the trajectory of the NSW had been the collective consumption share (E2) – the provision of public services that are not directly associated with the reproduction of the working class (it went from 5.9 to 7.6 per cent of GDP). This increase was manifested in several E2 spending functions, with emphasis on "Health" (from 2.3 to 2.8 per cent) and "Education" (from 2.1 to 2.8 per cent). The social spending share (E1) also increased (from 12.3 to 13.6 per cent of GDP) due to the growing share of expenditures related to "Social Security", "Social Assistance", and "Labour Affairs".

The tax component's stability stemmed from a steady growth rate in T1 and T2 shares. The surge in social security contributions led an increase in T1 and pushed the tax component from 40.9 per cent in 2005 to 42.23 in 2009. In contrast, the IT share oscillated in a downward trend during the period. Nonetheless, total revenues originated from indirect taxation increased from 2005 to 2008 and contracted only with the late effects of the international financial crisis in 2009. Until then, indirect taxation benefited from the increase in revenues from ICMS – tax on the circulation of goods and services – and IPI – tax on industrial goods – which can be associated with booming economic activity.

Therefore, the *structuring phase* (2005-2009) reflected a favourable scenario in both tax and expenditures sides. Tax incidence on the working class continued to increase but followed the path of GDP growth. While in the *preceding phase (2000-2004),* fiscal space originated from the increase in T1 (which indicated a direct appropriation from labour income), the *structuring phase* (2005-2009) counted primarily on the economic boom to sustain revenue flows via indirect taxation as the unemployment fell and the real wage went up (Orair et al., 2013). However, the growth in social security contributions can be attributed to the boom in the formal labour market and the consequent expansion of pension contributors (See Table 8). According to Orair (2012), revenues from social security contributions grew more than 8 per cent on average annually in the 2005-2009 period for the two pension system regimes.

It suggests that the increase in social security contributions stemmed from the amplified effects produced by institutional mechanisms. In 2009, for instance, when output growth fell, the rise in contributions was not affected. However, since social security contributions affect labour income directly (are part of T1), an expected result would be the fall in the NSW in 2009. Following Gentil and Hermann (2017), it would reflect the link between the expansion of the formal labour market and rising social security contributions which “reinforces the thesis that the social protection system In Brazil is financed by its beneficiaries, partially cancelling the redistributive effects of fiscal policy”. Nevertheless, despite Gentil and Hermann’s (2017) remark, this feature was not sufficient to overcome the upward pressure of social spending (E1) on the NSW: its most relevant spending function (“Social Security”) grew 9.8 per cent annually on average from 2005 to 2009 in real terms.[45]

[45] It is true, however, that this trajectory did not represent a significant expansion of the function as a share of the GDP, except from 2008 to 2009. Moreover, it is worth mentioning that the ageing population exerts pressure on pension systems; therefore, one cannot dissociate the increase in social security spending from this trend. However, it does not invalidate the real gains associated with pension benefits due to policy choices: according

If, on one side, the surge in social security contributions must not be separated from the increase in formal employment, social security spending needs to be understood in light of the minimum wage valorisation effect (Brito et al., 2018).

The formal employment boom also contributed to the elevation of the social spending share (E1) due to the expansion of "Labour Affairs". According to Table 8, the amount paid in unemployment insurance and the number of beneficiaries increased during the 2005-2009 period (respectively 16.5 and 9.1 per cent annually on average). This expressed an unusual phenomenon, as these variables are not likely to increase during an employment boom. It stemmed not only from the characteristics of labour contracts in Brazil but also from the effect produced by the "affiliation-contribution-benefit" tripod (Silveira et al., 2020). Since formal job contracts assure access to benefits, government costs with labour affairs tend to increase. Also, as these benefits respond to the minimum wage, the valorisation policy may have contributed to the increase in labour affairs spending.

At this point, one can discuss the meaning of the *structuring phase* (2005-2009) in the pro-redistribution attempt. As previously mentioned, from 2005 to 2009, the NSW increased *despite* a booming economy, falling unemployment and fiscal surpluses. This pro-cyclical behaviour contradicted the assumption that state provisions to the working class tend to be more elevated during economic busts. At first, acknowledging this particularity of the NSW suggests that it might stem from the cyclical determinants of fiscal policy: the economic growth favoured tax collection and provided space for expanding government spending. However, this cyclical effect does not necessarily presuppose a sustained elevation in the NSW. Even if increasing tax revenues lead to more spending, there is no need for the fiscal policy to assume a pro-labour redistributive orientation. This is especially relevant for the Brazilian case, as the tax burden on the working class did not fall in the period.

Therefore, a better assessment of the pro-cyclical NSW lies in the pressure exerted by the institutional framework that was put in motion by Lula's policies. The increase in the social spending share (E1) occurred mainly because of expenditures on social security (pension benefits) and labour affairs (unemployment insurance and other labour rights benefits), the two categories that are susceptible to the redistributive constitutional mechanisms, such as the anchoring function of minimum wage value for social benefits. According to Arretche (2018; 2018a), the Federal Constitution of 1988 also aimed at expanding social rights to the "outsiders", those deprived of accessing government benefits

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to the *Boletim Estatístico da Previdência Social*, the average value of pension benefits increased from R$ 1,178.17 in 2006 to R$ 1,456.43 in 2019 (in prices of that year).

because they did not compose the formal working force. During the *structuring phase* (2005-2009), incentives to formalization managed to reduce the number of outsiders while the gains in minimum wage strengthened not only the position of old and new insiders but also impacted the remaining outsiders, as the informal labour market was also favoured (Medeiros, 2015a; Loureiro, 2019).

In addition to social security rights, the inclusion of outsiders also refers to the access of public health and education (Kerstenetzky, 2017; Arretche, 2018; 2018a). In that case, a rising NSW reinforces the interpretation that Lula's government has engaged in structuring a redistributive state. It occurred not only by using the available institutional framework but also by improving access to public services: the main contribution to the growing NSW in the period did not stem from social spending (E1 share) but collective consumption spending (E2 share), especially concerning health and education expenditures. Given the non-monetary nature of these expenditures, their role in net social wage theory lies beyond the subsistence of the working class, in contrast with poverty-alleviation policies associated, for example, with social assistance. In other terms, government provisions that offer, for example, "socialized medical assistance, mandatory and free universal education" might be expressions of a subsidized consumption obtained by the working class from the state as a guarantee of citizenship rights (Oliveira, 1985, p.8; Bowles & Gintis, 1982).

There are, however, some caveats. There is a common understanding that the Workers' Party experience did not manage to expand these non-monetary transfers at the point of assuring the rights envisioned by the constitution of 1988 (Kerstenetzky, 2017).[46] Regarding the educational system, rising expenditures on public education were accompanied by changes in the institutional framework and management reforms to strengthen its provision, but also counted on parallel incentives to the private educational market.[47] In addition, despite the existence of a universal and free access public health system in Brazil, the private health provision benefited from the formal labour market expansion. This effect

[46] An issue refers to the tax waiver and tax expenditures associated with the burden of household costs with private health and education services, which suggest the "apprehension of the fiscal policy" by elites and middle classes (Silveira & Passos, 2018). Especially concerning health provisions, tax expenditures contribute to the regressive character of total government spending in this category, despite the pro-poor distributional orientation of the public service (Silveira & Gaiger, 2021).

[47] Lula's government created, for instance, a public fund that assured a commitment of federal resources to basic education financing (*FUNDEB)*. It amplified the number of public universities and democratized access to higher education by supporting the implementation of social and racial quotas. Moreover, it approved fiscal exemptions to private universities that provide full and partial scholarships to low-income students (*ProUni)*. In 2009, it ended with the possibility of reallocating tax revenues that were constitutionally linked to financing education (Marques et al. 2018).

stemmed from the historical demand from unionized workers in Brazil for private health plans but was also a consequence of government institutional reforms (Silveira & Gaiger, 2021).[48]

The ***consolidation phase*** **(2010-2014)** began with a record output growth in 2010 as Lula's government engaged in expansionary fiscal policy to contain the effects of the international crisis. Consequently, the NSW behaved countercyclically in the first year of Rousseff's government: it fell as the economic recovery led to a surge in indirect tax revenues. Both E1 and E2 shares reached lower levels in comparison to 2009 but experienced increases in total real spending. The contraction, therefore, stemmed from the faster increase in output than in expenditures. With the change in the economic landscape after 2010, lower average growth rates and an increasing fiscal deterioration led to a primary deficit in 2014. In addition, as expressed in Table 9, formal employment and minimum wage expansions evolved at a slower path compared to the previous phase. The *consolidation phase* (2010-2014), however, was characterized by a consistent increase in the NSW (it grew 2.4 percentage points from 2011 to 2014), which presented the highest average among the five phases. The reason behind that trajectory was the diverging trends in tax and expenditures components, a feature that lasted until 2017. While the tax component dwindled from 19.1 in 2010 to 17.8 per cent in 2014, the expenditure component jumped from 19.9 to 21 per cent (Figure 5).

The increase in the NSW was linked to the contraction of revenues from ICMS and PIS/COFINS as shares of GDP, although they remained stable in real terms. Social security contributions stagnated as a share of GDP but continued to expand in real terms at a lower rate. Part of it can be attributed to the lower average growth rate in formal employment (Table 9), which entailed a reduction in the growth of the number of employed contributors to social security after 2010 (Table 8). Although most of the increase in the NSW during the *consolidation phase* (2010-2014) originated from falling tax revenues, it was also a result of an elevation in the social spending share (E1) (Figure 5). As happened in the *structuring phase* (2005-2009), the rise in E1 was due to "Social Assistance", "Labour Affairs", and "Social Security", which have behaved differently. The first two saw a surge in the 2012-2013 biennium, reaching record growth rates. In 2014, however, both functions reduced as shares of GDP, even considering the large contraction of output growth. It was the first time that

[48] Several interpretations suggest that the main issues concerning the public health system in Brazil originated from limited resources in the national budget ((Mendes & Marques, 2009; Mendes & Weiller, 2015). Despite the expansion of private health plans, SUS has been relevant for the poorest households. According to Arretche (2018a), only 7 per cent of Brazilian household chiefs in the first income quintile had access to private health insurance in 2013.

“Social Assistance” did not increase as share of GDP since the beginning of the *structuring phase* (2005-2009). “Social Security”, on the contrary, increased both in real terms and as a share of GDP during the whole *consolidation phase* (2010-2014), being the major responsible for E1 growth.

At this point, a comparison between the *structuring* and the *consolidation phase* (2010-2014) can inform some considerations. Both cyclical (economic slowdown) and policy (tax exemptions) factors affected tax collection in the *consolidation phase* (2010-2014). They eliminated the NSW pro-cyclical character as falling revenues forced the NSW upwards. Despite the fall in the tax component, the persisting upward move of the E1 share suggests that the pro-labour fiscal policy forged in the *structuring phase* (2005-2009) presented a resilience in less favourable economic times.

Nevertheless, one should not underestimate the limits imposed by the economic slowdown. In the *structuring phase* (2005-2009), fiscal space allowed the collective consumption share (E2) to lead the rise in the NSW. In the *consolidation phase* (2010-2014), however, the E2 share remained stable and did not contribute to the upward move in the NSW. It occurred despite the increase in real spending with collective consumption: the total amount spent on health and education presented annually average growth rates of 5.3 and 6.8 per cent. It is important to recall, however, the influence of the wage share in the E2 share estimation, as the former expanded considerably during that period.

The move towards austerity during the Rousseff’s second mandate characterizes the main orientation of fiscal policy during the ***exhaustion* (2015-2017)** and the ***dissolution* (2018-2019)** phases. The NSW, however, behaved differently in the two phases, moving upward in the former and downward in the latter. It entails that changes in policy were not entirely responsible for the demise of the pro-redistribution attempt. Even with the cut in government expenditures, NSW reached its highest average value (4.57 per cent of GDP) in the 2015-2017 period (Table 2), being surprisingly led by an increase in the expenditure component while the tax component remained stable (Graphs 1 and 2). Again, the social spending share (E1) was responsible for the upward move, jumping from 14.5 to 15.8 of the GDP.

On one hand, this could indicate that the increasing NSW during the *exhaustion phase* (2015-2017) resulted from its countercyclical nature as social spending tends to increase during crises because of the automatic stabilizers. However, this seemed not to be the case. Most social spending categories were constricted from 2015 to 2017. For instance, the average real growth rate in “Social Assistance” was almost zero. Moreover, “Labour Affairs” decreased by 15.4 per cent between despite the plunge in formal employment (Table 2). In addition, contrary to the expected, unemployment insurance beneficiaries and total benefits paid also decreased (Table 8). The only exception was social security spending. First, it presented an average growth of 3.9 per cent annually. Second, it increased its participation from 11.5 to 12.7 per cent of GDP, despite the fall in the slowdown in real minimum wage valorisation. Therefore, instead of pointing to a cyclical consequence, the rising NSW during the *exhaustion phase* (2015-2017) suggests a resilience of the pro-redistribution attempt, manifested in a pro-labour fiscal policy rigidity. It entails that the Workers’ Party legacy manifested itself in an enduring upward trend of social security spending that avoided the deterioration of the net social wage.

This can be attributed to both the expansion of pension system beneficiaries and the increasing value of baseline benefits. Nevertheless, the resilience of pro-labour fiscal policy should not be attributed only to the effects on social spending share (E1) but should consider a decade of growing expenditures directed towards the working class: from 2005 to 2017, it increased from 18.2 per cent to 23.3 per cent of GDP. Hence, it suggests that neither cyclical nor policy factors were strong enough to force down the NSW during the *exhaustion phase* (2015-2017), despite the reduction and/or stagnation in the growth of monetary and non-monetary income transfers.

At this point, the analysis of the NSW can inform the existing interpretations on the intensification of the distributive conflict during Rousseff’s government and the realignment of political forces against a pro-labour fiscal policy. Evidence indicates that during the *preceding phase* (2000-2004) and *structuring phase* (2005-2009), it has been an increase in profitability that contrasted with a long-term fall in profitability that started in the 1950s (Marquetti et al., 2020; Martins & Rugistky, 2021). This increase was associated with cyclical booms and busts but did not last enough to indicate the occurrence of a cyclical profit squeeze. According to Martins and Rugistky (2021), the 2001-2003 cycle was interrupted by a strong exchange rate depreciation that preceded Lula’s election while the 2003-2009 cycle suffered the impact of the international financial crisis. This last cycle, however, counted on a falling profit share mostly attributed to the decline in the unemployment rate and the increase in real wages above labour productivity (Marquetti et al., 2020). The rise in the wage share during the *structuring phase* (2005-2009) was related to a composition effect: the increasing participation of labour-intensive sectors (wholesale, retail) in the total value added in the economy (Dias & Ruiz, 2016; Rugitsky, 2017). At that time, it did not pressure profitability because of the increase in the utilization capacity, which compensated for the fall in the profit share (Martins & Rugitsky, 2021).

The *consolidation phase* (2010-2014), however, coincided with a very different scenario regarding the distributive conflict. According to Marquetti et al. (2020, p. 122), for instance, the capacity utilization reached a high level, which "indicated that to maintain 4 per cent growth would require an increase in the investment rate”. Therefore, as the other determinants of profitability began to decline (utilization rate and capital/capacity rate), the wage share of income continued to increase (Figure 5 and Table 8). Differently from the *structuring phase* (2005-2009), in which the fall in the profit share had a sectoral bias, the *consolidation phase* (2010-2014) was marked by a general increase in labour gains among sectors, which entailed the occurrence of a cyclical profit squeeze. In this context, as expressed by Martins and Rugistky (2021, p.388), the Brazilian “class conflict came to the fore" (Braga, 2016; Singer, 2020).

If the *consolidation phase* (2010-2014) coincided with rising tensions between capital and labour, the increase in the NSW during the *exhaustion phase* (2015-2017) informs the pressures that initiated in 2014. From 2015 to 2017, the resilience of pro-labour fiscal policy expressed in the sharp rise in the NSW contrasts with the falling wage share, the increase in unemployment and the fiscal consolidation[49]. In parallel, the worsening economic conditions affected tax revenues and compromised fiscal results, leading to subsequent primary deficits. It entails that cyclical and policy determinants showed their limitations in controlling the increase in the social spending share (E1), mostly because of the enduring effects of the Workers’ Party's attempt to activate constitutional redistributive mechanisms. Following this, the NSW trajectory in the *exhaustion phase* (2015-2017) suggests that a structural transformation in the size of the social spending might have contributed to the underestimated increase in labour bargaining power (Serrano & Summa, 2018; Dweck & Teixeira, 2017). In that case, if falling unemployment, rising informality and minimum wage gains directly impacted the distributive conflict, the enduring effects of these changes on the trajectory of social spending suggest a subtle redistributive mechanism.

At that point, Kalecki’s interpretation on the political business cycle would already indicate that rising discontentment with Rousseff’s government could be associated with the profit squeeze and, therefore, oriented towards a fiscal consolidation agenda (Martins &

[49] The net social wage increased in real terms during the period. This indicates that a falling GDP growth is not the responsible for the surge in the NSW in that period.

Rugitsky, 2021). Nonetheless, the analysis of the NSW unveils a persisting pro-labour orientation of the fiscal policy that could represent a long-term compromise of the Brazilian state in promoting redistribution. The fact that the NSW reached its record in 2017, after the removal of Rousseff and the approval of the spending ceiling, tends to reinforce this hypothesis. Considering that the resilience of a pro-labour fiscal policy can be associated to the activation of constitutional redistributive mechanisms "the successive attacks on labour legislation, public services, and redistributive policies that took place in the period can be interpreted as, among other things, and attempt to avoid a recurrence of a profit squeeze" (Martins & Rugitsky, p. 390).

Consequently, one might suggest that the reforms in the institutional framework that followed the end of the Workers' Party governments consisted of an attempt to disintegrate some of the drivers that allowed the redistributive experience. First, the spending ceiling has established limits for primary expenditures to grow, which compromises the state's ability to cope with the reproductive demand from the working class in the medium term. Also, it has imposed a zero-sum game over a pro-labour fiscal policy, as favouring one budgetary function means disfavouring another. This hindrance has already impacted public investment, which has fallen gradually since 2016. A more subtle consequence would be the removal of mandatory constitutional obligations with some functions (such as education and health) under the necessity to expand fiscal space.

Nevertheless, by considering the NSW trajectory in the *dissolution phase (2018-2019)*, the importance of labour legislation and pension system reforms come to the fore. After 2017, the NSW reverted its long upward trajectory and began to fall. According to Figure 4, the downward move was motivated by both an increase in the tax component and a fall in the expenditure component. The former relied on rising indirect tax revenues, denoting the cyclical determinant. The latter was due to the decrease in the E2 share, possibly reflecting restrictions imposed by the spending ceiling. The E1 share, however, did not decrease. On the contrary, social security spending oscillated upward as a share of GDP. This points to the importance of the long-term effects of the labour and pension reforms to eliminate the pro-labour orientation in fiscal policy. Finally, therefore it did not seem by chance that, as expressed by Saad-Filho (2020, p.22), Bolsonaro's administration's priority was the dismantlement of the pension system "in order to introduce another one based on individual accounts, minimal redistribution between generations or classes, and tough restrictions upon drawing on pension income".

3.7 Concluding remarks

It is common to attribute the success of the recent redistributive experience in Brazil to the expansion of social income transfers during the Workers' Party administrations (2003-2016). Indeed, as the specialized literature indicates, the growth in these provisions, emblematically represented by the *Bolsa Familia*, had been determinant for reducing poverty and inequality in the first two decades of the 21st century. Nevertheless, evidence suggests that the redistributive experience also had roots in more subtle but determinant mechanisms associated with the labour market. The first was the significant increase in jobs allocated in the formal sector, as the unemployment rate decreased consistently from 2004 to 2014. The second refers to gains in labour income associated with annual increases in the national minimum wage. These results stemmed not only from the favourable economic environment but have been consequences of both an institutional framework and policy decisions that favoured the working class during the years of the Workers' Party governments.

This article discussed the redistributive role played by the Brazilian state during the period and argued that those mechanisms were central to establishing a pro-labour orientation in fiscal policy, manifested in the consistent growth of expenditures directed to the working class. It estimated the net social wage from 2000 to 2019 and indicated an upward trend in the provisions of the Brazilian state to workers which lasted from 2005 to 2017. In addition, the net social wage left a near-zero zone in the first years of the series to record more than 5 per cent of the GDP in 2017. These results allow us to suppose that the Workers' Party administration had engaged in a relatively successful pro-redistribution attempt, which had to be interrupted and disintegrated as the distributive conflict intensified. This attempt was possible as the government managed to activate existing but underused institutional redistributive mechanisms, which originated from the constitutional framework established in 1988 with the re-democratization. In short, while incentives to formalization incorporated more Brazilians into the public social protection system, increases in the value of the minimum wage produced a generalized expansion of the value of the benefits. Therefore, Brazilian fiscal policy became increasingly pro-labour oriented, not only because of the Workers' Party policy agenda but due to the enduring effects of labour market transformations in social spending. During most years of the Workers' Party administration, a growing state provision to the working class coexisted with the rise in the wage income share. Hence, fiscal policy might have contributed to intensifying the Brazilian distributive conflict that culminated in the removal of Dilma Rousseff from the presidency in 2016.

Considering this, the trajectory of the net social wage alludes to five moments that resume the rise and fall of the pro-redistribution attempt. The *preceding phase* (2000-2004) guaranteed fiscal conditions for the latter. Lula's first government relied on the working class to absorb the burden of fiscal adjustment as the net social wage fell. From 2005 to 2009, during the *structuring phase* (2005-2009), the net social wage increased without pressuring the government budget, as favourable economic conditions led to high output growth and tax revenue collection. Because the net social wage represents the state provision associated with the reproduction of the working class, it tends to fall during boom phases and increase in the downturn. However, it did not happen in Brazil during the *structuring phase* (2005-2009). Part of the explanation lies in the surge in social spending expenditures due to the increase in formal employment and in the minimum wage value. But a more meaningful result was the growth in health, education and other collective consumption spending categories. As stated by the net social wage theory, a rise in these expenditures tend to represent a growing state's commitment to a welfare model that guarantees the expansion of citizenship rights.

Nevertheless, whether the trajectory of the net social wage after 2010 informs the relative success of the pro-redistribution attempt, it also indicates the limits of the experience. In the *consolidation* phase *(2010-2014),* falling tax revenues associated with the economic slowdown contributed to the increase in the net social wage. Expenditures did not contract, although cuts in collective consumption spending announced the rising fiscal limitations on welfare provision. Also, the *consolidation phase (2000-2014)* coincided with a moment in which the distributive conflict between labour and capital became evident, as the increase in the wage share generated a cyclical profit squeeze.

Economic slowdown, fiscal deterioration and political discontentment led the government to revert fiscal policy towards austerity in 2015, a policy that was maintained after the end of the Workers' Party administrations. This, however, did not produce changes in the trajectory of the net social wage until 2017. The apparent inconsistency is explained by the growing social security spending as a share of GDP, as tax and other expenditures categories remained stable. Therefore, the pro-redistribution attempt entered the *exhaustion phase* (2015-2017) when the pro-labour orientation of fiscal policy stemmed solely from the increase in social security spending. It occurred despite the increase in unemployment, the decrease in formal jobs and the end of minimum wage raises.

After the cyclical profit squeeze between 2009 and 2014, class disputes spilt over the political realm, and the capitalist reaction to rising labour bargaining power turned to the fiscal capacity of the Brazilian state to spend with the working class. But neither the impeachment of Rousseff nor the deepening of austerity measures proved being enough to interrupt the pro-redistribution attempt. In the *dissolution phase* (2018-2019), the net social wage finally reverted its upward trajectory and fell, but social security spending did not contract, remaining stable as a share of GDP. It entails that halting the pro-labour orientation of fiscal policy required the elimination or at least the alteration of the institutional framework that assured the activation of the redistributive mechanisms during the Workers' Party. Therefore, in addition to the short-term solution provided by the spending ceiling, reforms in labour legislation and social security combined with the end of the minimum wage valorisation policy suggest a medium-term trajectory of re-establishing capital bargaining power.

Finally, the net social wage trajectory implies that the cyclical profit squeeze that followed the long expansion in Brazil might have counted on the contribution of the redistributive role played by the Brazilian state. On the one side, evidence of the improvement in inequality and poverty levels combined with the consistent increase in the net social wage from 2005 to 2017 supports the hypothesis of a state-induced profit squeeze. On the other, the redistributive attempt relied on incentives for the growth of formal employment and the rise in the minimum wage. Although these policy choices have contributed to a pro-labour orientation in fiscal policy, one must not underestimate their direct impact on capital-labour relations within the labour market. In other words, the rising labour bargaining power during the period advocates for a wage-induced profit squeeze. Hence, the denouement of the Workers' Party pro-redistribution attempt points to a two-sided effect (wage and state-induced) associated with the cyclical profit squeeze.

4 TOWARD A CRITICAL APPRAISAL OF THE GROWTH MODEL PERSPECTIVE: THE POLITICAL BUSINESS CYCLE IN BRAZIL (2003-2016)

4.1 Introduction

Comparative political economy (CPE) has traditionally investigated how national capitalisms diverge due to the existence of different institutional frameworks. In the past decades, it became increasingly associated with the Varieties of Capitalism (VoC) approach (Hall & Soskice, 2001), a combination of neo-institutionalist theory and New Keynesianism that consolidated CPE detachment from heterodox economics (Baccaro & Pontusson, 2016; Stockhammer, 2022). Recently, however, a burgeoning debate on the theoretical foundations of CPE took place. In a critique of the VoC approach, Baccaro and Pontusson (2016, p.177; 2022) argued for the "return to Keynesian and Kaleckian insights neglected by the CPE literature" as a way of overcoming the failure in generating "alternative analytical categories" to treat its core *problématique*: "the (national) diversity of capitalism."

Alternatively, they presented the Growth Model Perspective (GMP), which rapidly became a trend among political scientists, economic sociologists, and heterodox economists. In short, the GMP proposal lies in two main premises. The first states that one can evaluate the different characteristics of national capitalist economies by looking at the "different demand drivers of growth" (Baccaro & Pontusson, 2016, p. 206), the dynamic components of aggregate demand that configure a growth model. The second, in turn, establishes that growth models are associated with socio-political determinants that sustain their stability (or are the cause of their demise). According to Baccaro & Pontusson (2022), these determinants are expressions of coalitions of interests capable of defining the "national interests" and conditioning historical change in the growth model of national economies.

The GMP approach has been praised by enthusiasts and critics. According to Streeck (2016, p.244-245), for example, it provided new room for theorisation, as it contested the VoC rigid categories with a historically based framework combining "a country's economic strategy and its underlying institutional and political structure". This potential has been critically explored by some extensions on the original GMP proposal. Some post-Keynesian economists, for instance, have stressed the inconsistencies in Baccaro and Pontusson's formulation and indicated theoretical and empirical paths to improve the GMP framework (Stockhammer, Durand & List, 2016; Hein, Meloni & Tridico, 2020; Ackay, Hein & Jungmann, 2021; Kohler & Stockhammer, 2021). They have focused on specifying trends of recent growth models in both developed and developing economies by identifying the behaviour of demand components and growth drivers following cross-countries comparisons. Although it has contributed to qualifying the methodological assessment of growth models, the focus has been excessively oriented towards the first premise of the GMP – the role played by the demand side of the economy (Stockhammer & Kohler, 2022).

Other approaches have analysed recent growth models by offering detailed case studies for specific countries or regions. Part of this effort has incorporated some of the aspects emphasised by the post-Keynesian critique (i.e., the role of financialisation) to assess growth models considering their underlying institutional framework and political coalitions (Schedelik, Nölke, Mertens & May., 2020; Nölke, May, Mertens & Schedelik, 2020; see also Baccaro, Blyth & Pontusson (2022) for other examples). Although these contributions have managed to address one of the main weaknesses of the VoC approach – the avoidance of "all potential sources of endogenous stress, tension and contradiction" (Hay, 2020) – they have followed a path that moved away from one important – and underexplored – aspect of Baccaro and Pontusson's formulation: the "rediscovery of Kalecki [..] to a modern version of a historical-institutionalist theory of capitalism development" (Streeck, 2016, p. 245).

This is especially remarkable when considering the frequent mention of the recent Brazil's growth model in this literature. Whether from a comparative point of view concerning other developing economies or from a particular assessment of its recent history, Brazil has been extensively treated as an informative case to theoretically and empirically improve the analysis of growth models in the capitalist periphery (Nölke et al., 2020; Morgan, Doerin & Gomes, 2020; Sierra, 2022). As Schedelik et al. (2020) suggest, "Brazil is an intriguing case [...]" as "it does not fit well into the usual categories of Comparative Capitalism". These efforts, however, have given little attention to the foundations of the economic and political crises that took place in Brazil after 2014, putting an end to a large period of growth and income distribution (Serrano & Summa, 2015, 2018; Dweck & Teixeira, 2017; Marquetti, Hoff & Miebach, 2020; Singer, 2020; Martins & Rugitsky, 2021). Although there are several divergences among these interpretations, it is noticeable that all of them recognise to a certain degree the importance of Kalecki's formulations on the dynamics of the distributive conflict to analyse the recent political economy in Brazil.

Reclaiming the centrality given by Baccaro and Pontusson (2016) to Kalecki's theory and Neo-Kaleckian models, this article aims to provide theoretical and empirical insights to the GMP by offering an alternative assessment of the recent growth model in Brazil. It focuses on the convergence of the GMP's demand drivers of growth and socio-political determinants with the formulation of the Kaleckian political business cycle. It also considers the recent trajectory of the Brazilian political economy by putting the distributive conflict between labour and capital in the centre of the analysis. As it relies on some post-Keynesian criticism of the GMP, it proposes new paths of convergence between post-Keynesian economics and CPE.

In addition to this introduction, the article contains four other sections. The first evaluates the contribution of the GMP to CPE studies. The second stresses some of post-Keynesian critiques and argues for the consideration of Kalecki's political business cycle in the growth model framework. The third section presents how the growth model literature has treated the recent Brazil's growth model. Finally, the last section discusses it according to the proposed framework.

4.2 The novelty of the Growth Model Perspective in CPE

One can assess the relevance of Baccaro and Pontusson's (2016; 2022) contribution by the rapid response it fostered. By agreeing on the GMP innovation in overcoming the rigid framework of the VoC approach, its critics pointed to a paradigmatic change in CPE foundations. This reconfiguration, however, does not seem to be caused only by the success of GMP but also by structural issues in the VoC approach.

Following Hall and Soskice's (2001, p.1-2) milestone, the VoC approach was established as "a new framework for understanding the institutional similarities and differences among developed economies" which aimed at overcoming a group of previous perspectives that, "like ours, [..] was a response to the economic problems of its time". Indicating a withering moment for Keynesian economic practices, Hall and Soskice (2001, p. 4) argued that existing CPE approaches did not dedicate the necessary attention to the role played by the private sector and tended to "overstate what governments can accomplish, especially in contexts of economic openness where adjustment is firm-led". As a response to that, the VoC approach aimed at approximating CPE to business studies. It adopted a firm-centred perspective (focused on the micro-foundations of macroeconomics) and concentrated on the institutional differentiation of developed capitalist economies. In that case, it became possible by mapping economies' supply-side features (such as industrial relations, corporate governance, and labour skills) and categorising them according to the adherence to two main ideal types: the liberal and the coordinated market economies.

Regardless of their particularities, these two “varieties of capitalism” have been theoretically conceived as multiple equilibria solutions to the problems of dealing with the coordination of the collective action for efficient production in national economies (Baccaro & Pontusson, 2016; Stockhammer & Kohler, 2022; Stockhammer, 2022): minimising transaction costs, reducing uncertainty, avoiding moral hazards, and preventing from adverse selection (Streeck, 2010). They represent market optimum situations from which rational actors are not willing to deviate. In that case, both liberal and coordinated market economies “show similar levels of economic growth, per capita income, and unemployment which, however, they achieve in different ways” (Streeck, 2010, p. 26; Baccaro & Pontusson, 2016). As argued by Hay (2020, p.312), the VoC approach is designed to indicate, by relying on "highly stylised modelling," that more than one Pareto optimal solution to market liberalism is available as one considers the possibility of coordination strategies that are not completely market-based.

One specific criticism directed at the VoC approach seems to be central to understanding the emergence of the GMP. According to Hay (2020), the VoC approach presents an ontological problem regarding the construction of its typology. Contrary to Hall and Soskice’s affirmation, the two “varieties of capitalism” have been treated as concrete expressions of capitalist diversity despite being conceived as Weberian ideal types. This conceptual confusion has blurred the analytical capacity of the VoC approach and would have contributed to: i) a difficulty in fitting some developed and developing economies in the two “varieties of capitalism”, which led to an overextension of the typology (Schelkle, 2012); ii) an understatement of significant contemporary characteristics of national economies such as the growth of financial systems and the rise in inequality (Stockhammer & Mohib, 2018); and, iii) an inability to anticipate crises as "real world political economic systems are recognisable variants of one or other ideal type, we should assume that they will prove stable" (Hay, 2020, p. 315). Regarding the crisis's issue, Streeck (2010, p. 27) suggests that the VoC approach eliminates from CPE the realm of conflict and power disputes, reinstating the issues of distribution or exploitation as problems associated with the efficiency of production. In the end, "the notion of capitalism, originally inseparably associated with conflict and crisis, becomes not just technocratically sterilised but also de-historicised."

A careful assessment of Baccaro and Pontusson’s (2016) presentation of the GMP suggests that it intends to overcome these difficulties. The authors argue that the innovation of GMP consists of explaining the diverse trajectory of national capitalist economies by emphasising the "demand side of the economy" and placing "the distribution of income, among households and between labour and capital, at the centre of our analysis" (p. 176). At this point, it becomes clear that the hard core of the research programme proposed by the GMP lies in two main premises. First, that national capitalist diversity can be perceived by reconstructing the trajectories of economic growth and its demand drivers, such as household consumption and net exports. Second, these trajectories are not isolated from sectoral, personal, and functional income distributions and, as better theorised in Baccaro and Pontusson (2022), are susceptible to politics and constrained by electoral results. Consequently, the two premises entail, first, that the historical assessment of particular growth trajectories can be more informative to the understanding of national capitalist diversity than the elaboration of ideal types and, second, that institutional conflict and class tensions must not be left aside.

Following these two main pillars, some specificities of the GMP approach deserve attention. They concern: i) how Baccaro and Pontusson (2016; 2022) incorporate a demand-oriented interpretation method in CPE, ii) how it is related to politics, and iii) how this new perspective reframes the object of study concerning the national diversity of capitalism in CPE. We begin highlighting that the GMP situates the demand side of the economy in the centre of the analysis of national capitalist diversity as it recognises that, following the French Regulation School, income distribution between labour and capital, or more specifically "from labour to capital," has been an underlying process in national (developed) economies since the 1970s. In the GMP view, CPE has been "strikingly oblivious" to this and has not elaborated on the relationship between the rise in inequality and national growth trajectories in the “post-Fordist” era (Baccaro & Pontusson, 2016, p. 184). The GMP's role, therefore, is to identify the reasons for national capitalist diversity that emerged in this new historical and institutional context, as the older ones – “collective bargaining and unemployment insurance that boosted labour’s bargaining power and served to ensure that wage growth kept pace with productivity growth” (p.184) – became unreproducible.

This is where Baccaro and Pontusson (2016) introduce Kaleckian and Neo-Kaleckian frameworks in the GMP. Following the benchmark model, when wages grow below productivity, aggregate demand and capital accumulation are likely to decelerate. It happens due to the difference concerning the propensity of consuming out of labour and capital incomes as well as the sensitivity of investment to demand. National capitalist diversity, therefore, would emerge from the different strategies adopted by economies to enable growth in the alternative context of real wage stagnation (Baccaro & Pontusson, 2016; See also: Lavoie & Stockhammer, 2012). By relying on theoretical premises and empirical observation, Baccaro and Pontusson (2016, p.186) propose that the "Fordist model of wage-led growth" could have been substituted by four alternatives: consumption-led growth fostered by rising indebtedness, investment-led growth, export-led growth and finally, by an already inexistent state-led growth model, “another conceivable growth model” in which “government consumption and investment would be the primary drivers of economic growth and the rate of investment would not be determined by the profit share."

Although treated as fundamental in Baccaro and Pontusson (2016), the inclusion of a political framework in the GMP was only detailed in “The Politics of Growth Models” (Baccaro & Pontusson, 2022). In this article, the main argument states that stable (or durable) growth models rely on cross-class coalitions of sectoral interests, which can be accepted as "national interests". In this case, the macroeconomic policy becomes subjected to sectoral disputes as, for instance, it might diversely affect domestic-oriented and external-oriented sectors by ensuring a determinate path to the exchange rate, the interest rate, or even the wage rate.

Therefore, by having privileged access to the policy-making sphere, coalitions manage to influence macroeconomic policy and guarantee the necessary requirements for growth models to persist. According to the authors, firms and business associations are the main components of these coalitions, even though fractions of labour are potential participants if their "interests are in tune with the sectoral profile of the growth model and can be accommodated without impairing the latter's functionality" (p. 205). Coalitions, however, do not need to coincide with electoral majorities because of the tendency of mainstream political parties to "converge on key growth model policies". However, this premise does not necessarily hold during an economic crisis, in which coalitions tend to fragment, and new players might contest the growth model's paradigm. In that case, electoral politics tend to constrain coalitions and might be at the origin of "policy changes that transform the growth model" (p. 204).

According to Baccaro and Pontusson (2022), the GMP political framework stems from two theoretical approaches. The first focuses on the formation of producer coalitions that influence policy (within the welfare state). This literature encompasses contributions on the impact of international crises on policy and political coalitions (Gourevitch, 1986), intra-class conflict among workers and its relationship with the welfare state (Swenson, 1991), and a contemporary critique of the VoC approach on institutional change (Thelen, 2014). The second approach refers to the role played by the electoral process. According to Baccaro and Pontusson (2022), one must not underestimate its role but should be aware of not exaggerating its contribution to the perseverance of growth models. For this argument, the authors rely on an electoral-partisan politics framework (Beramendi, P., Häusermann, S., Kitschelt, H., & Kriesi, H., 2015), where voters' preferences condition their choices on specific growth-model policies according to political parties, "leaving little meaningful space for organised interests and 'growth coalitions'" (Baccaro & Pontusson, 2022, p. 210).

The GMP's treatment of political coalitions does not dismiss the distributive conflict in its classical terms but understates it in favour of a business-led coalition susceptible to the sectoral effects of macroeconomic policies. The contradiction, however, is that it marks a distinction between the economic and the political foundations of the GMP. In Baccaro and Pontusson (2016, p.181), the distributive conflict is conceived in light of the Kaleckian formulation, which "expected full-employment policies to be opposed by a coalition of capitalists and rentiers – the former motivated by concerns about labour's bargaining power, the latter about the real value of financial assets". However, Baccaro and Pontusson (2022) do not mention the vast literature that had elaborated on the classical understanding of the Kaleckian distributive conflict among capitalists, workers and rentiers, or capital and labour within the state (Boddy & Crotty, 1975; Bowles & Gintis, 1982; Shaikh & Tonak, 1987; Bowles, Gordon & Weisskopf, 1985). Therefore, on one side, the GMP politics framework partially frustrates Streeck's (2016) expectation that the rediscovery of Kalecki would foster a modern theory of capitalist development based on a historical-institutionalist perspective. On the other, however, it clearly offers an analytical possibility that "disconnects growth strategy from political-economic structure, allowing for two parallel strands of change and making the relationship between them a subject of empirical investigation and theory building" (Streeck, 2016, p. 245).

Finally, a third specificity of the GMP emerges as a corollary of the previous two. Baccaro and Pontusson (2016) affirm not only that their "growth models" are more numerous and more unstable than Hall and Soskice's "varieties of capitalism" but also that GMP's intention is not to reinforce the tradition of "building typologies and classifying countries" or to defend "a particular typology, but rather to illustrate" another approach in CPE. Although they do not elaborate further on this, it is rather reasonable to conclude that the GMP ends up proposing another focus for the research effort in CPE. In the VoC approach, for example, one of the main concerns was to contest the convergence of capitalist economies after the 1970s in light of what Hall and Soskice (2001) understood as globalisation. This is not very different from the GMP issue concerning the overall struggle of national capitalist performances to keep economic growth in the post-Fordist era, or better understood, “during the transition to neoliberalism” (Streeck, 2016, p. 244). However, what differs is that the VoC inherent equilibrium eliminates the potential turbulences that might provoke junctural and structural changes in the political economy of national capitalisms during these trajectories. By eliminating conflict from the model, the VoC also gets rid of historical transformation. In the end, VoC typology must be constantly readapted to converge with the inevitable historical vicissitudes that emerge from the empirical analysis of national capitalist diversity (See, for example, Schelkle, 2012; Streeck, 2010; 2016).

In the GMP, on the contrary, conflict, instability and paradigmatic historical changes are possible and, moreover, can be related to the rise and fall of a growth model stability (or political coalition dominance) (Hay, 2020). The GMP, therefore, is not constrained to static features of a national capitalist economy but provide elements that inform dynamic to analyse alternations on the political and economic cycles. As suggested by Streeck (2016, p.246), the GMP restores the importance of capitalism to CPE, which entails the possibility of analysing changes in national economies according to patterns that stem from capital expansion and accumulation, but are “full of frictions, contradictions, and dysfunctions […]”.

4.3 Back to Kalecki: building bridges between the GMP and its post-Keynesian critique

As would be expected, the GMP theoretical effort has been praised by several post-Keynesian authors. Although many have not demonstrated the intention to contribute to the GMP directly, there has been significant concern about the strengths and weaknesses of using post-Keynesian theory in this new CPE approach. One fundamental critique, for example, referred to the misemployment of the concepts of growth and demand regimes originated from Neo-Kaleckian models (Bhaduri & Marglin, 1990). According to post-Keynesians, Baccaro and Pontusson (2016) ended up mixing structural parameters concerning the effects of income distribution on demand and growth (the wage- and profit-led regimes) with the drivers of demand growth that are related to economic policy and condition the distributional dynamics in a period (Stockhammer & Kohler, 2022; Stockhammer, 2022; 2022a; Hein et al., 2020). By affirming that contemporary alternatives to the "traditional Fordist model of wage-led growth" in developed economies have been mainly represented by the export-led and the debt-financed consumption models, Baccaro and Pontusson (2016, p. 186) suggest that exports and household debt are the dominant demand drivers of economies that have been structurally profit-led since growth was detached from real wage gains. Following Hein et al. (2020), however, post-Keynesian literature has provided empirical evidence on the wage-led nature of some developed capitalist economies, even after the 1980s.[50]

Another concern of post-Keynesian critics of the GMP has been the role played by financialisation in this post-Fordist context. Although Baccaro and Pontusson (2016) recognise the importance of contemporary financial trends in determining national growth trajectories (as shown by the role played by household debt), they suggest more than once that the GMP does not incorporate financialisation as part of its framework.[51]. According to post-Keynesians, however, financialisation determines the conditions to which demand components and growth drivers are subjected and, consequently, represents a common feature of the different growth models in contemporary capitalism. As expressed by Hein et al. (2020, p. 8), the effects of financialisation combined with falling wage shares and the negative impact of rising inequality on consumption are expected to decelerate demand and growth. Nevertheless, "depending on the degree of redistribution, on the one hand, and the degree of liberalisation of the financial sectors, on the other hand, these depressive effects […] have been partly compensated or even overcompensated" in different cases. Following this, the GMP has been unable to incorporate a synthesis between the structural dimension of contemporary capital accumulation ("financed-dominated capitalism") and the specific characteristics of national growth models (Hein et al., 2020).

A third critique of post-Keynesians suggests that the GMP underestimates the role of macroeconomic policy. Indeed, despite assuming that growth models' stability lies in the privileged access of political coalitions to policy instruments and decisions, Baccaro and Pontusson (2022) show suspicion of the effective possibility of promoting deliberate changes

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[50] Baccaro and Pontusson (2022, fn. 2) commented on this topic in a footnote. They stated that the GMP does not apply the demand and growth regimes terms as the post-Keynesian economics does. Contrary to a differentiation between demand and growth regimes, "our growth models are purely descriptive entities and are operationalised through growth composition exercises ."These exercises refer to the identification of which demand component most contributed to the growth of a national economy during a period: "for example, we refer to Germany as 'export-led' because German growth in the period between 1995 and 2015 is largely attributable to (import-corrected) export growth".

[51] They indicate, for instance, that "financialisation" can refer to "rising household indebtedness" or also serve as an "umbrella term for institutional or regulatory changes that have moved advanced capitalist economies onto a profit-led growth path", being "brought to the fore by economic sociologists and heterodox economists rather than by CPE scholars."

in macroeconomic policy. In the real world, monetary policy would rely on independent central banks and fiscal rules would reduce fiscal policy space. Because of that, the GMP assumes that political coalitions tend to converge on a similar macroeconomic policy, which remains away from "the noisy politics of electoral competition" (Baccaro & Pontusson, 2022, p. 211). Post-Keynesians, on the contrary, stress that several spheres of macroeconomic management (monetary, fiscal, wage, and exchange policies) tend to contribute to changes in growth models (Kohler & Stockhammer, 2022a; Hein & Martschin, 2021) and indicate that economies might follow different growth models depending on the role played by welfare provision by the state (Hein et al., 2020).

Finally, post-Keynesians criticise GMP's focus on developed economies and expand the analysis of growth models to peripheral capitalism. On one side, the essential *problématique* remains similar to the one that characterises the study of developed economies: following the institutional modifications that changed the global conditions for capital accumulation since the 1980s, how peripheral economies have managed to produce growth in this new context? On the other, however, it stresses that those peripheral countries have been historically constrained by their integration into the international economy. By assuming this, post-Keynesians approximate the GMP to the development studies agenda: technological lags, a large reserve of labour force, external vulnerability, financial volatility, and other underlying characteristics of peripheral economies produce diversification of national capitalisms among these countries but also vis-à-vis the growth trajectories of developed economies (Ackay; Hein & Jungmann, 2021; Mertens et al., 2021; Stockhammer, 2022a; Jungmann, 2021).[52] In the end, post-Keynesian formulations on peripheral economies contribute by adding a third pillar to the hard core of the GMP research programme (in addition to the role of demand and the socio-political determinants): growth models for developed and developing countries are structurally differentiated by particularities of the peripheral integration to the international economy (Nolke et al., 2020).

Nevertheless, the post-Keynesian critique of the GMP has also shown some vulnerabilities. First, by focusing on cross-country comparisons, it inevitably replicated typologies, a weakness identified by Baccaro and Pontusson (2016) in the VoC approach.

[52] Many of these efforts provide a general assessment of very distinct countries that fit the label of developing economies. It is not surprising, therefore, that results point to the large heterogeneity among cases which implies the consideration of several exceptions. Consequently, one might suggest the existence of a trade-off in the analysis of developing economies from the GMP and its critics' perspectives: when focusing on a large sample, there is the risk of underestimating specific elements of a determinate growth model that arises from the variegated nature of capitalism in the periphery.

Second, it failed to reach a consensus on the employed terminology: by using terms like models, regimes, drivers, components, and strategies, the contributions have generated confusion on whether they are indeed dialoguing under the same theoretical framework. There is, however, a more significant deficiency in the post-Keynesian critique of the GMP: by giving large importance to the first of the original GMP pillars (the role of the demand side of the economy), it ended up undervaluing the role played by the second (the politics of growth models).[53] The post-Keynesian literature, therefore, has failed to offer a suitable solution for the political economy problem when considering capitalist diversity by looking at the demand side.

This absence surprises because it overlooks a topic that has been highlighted by Baccaro and Pontusson (2016) as a central contribution of post-Keynesian theory: the role played by the distributive conflict. In that contribution, the authors stress that a novelty reinstated by the GMP in CPE refers to bringing back personal and functional income distribution to the centre of the analysis. In their words: "Borrowing from post-Keynesian economics in the tradition of Michal Kalecki, we treat distributive struggles as a key factor in the evolution of growth models" (Baccaro & Pontusson, 2016, p.176). Then, the authors highlight the particularity of Kalecki's contribution in associating the conflict between capitalists, rentiers, and workers within the state with the effective demand problem, a consideration that has been absent in Keynes' propositions. Despite this brief commentary, Kalecki's influence on the GMP has been concentrated on contemporary growth and distribution models as mechanisms to affirm the primacy of the demand role. When Baccaro and Pontusson (2020) elaborate on the politics of growth models, there are no mentions of Kalecki's contribution to political economy. Moreover, traditional class conflict is subsumed in the formation of sectorial and electoral political coalitions, which contributes to the complexification of the analysis but does it by renouncing a more structural understanding of the categories of capital and labour.

In the end, the two original pillars of the GMP hard core seem to be grounded in different theoretical perspectives. At first, it does not necessarily indicate a problem, but it

[53] Some efforts (especially those focused on building typologies) barely mention the role of politics. However, it would be incorrect to extend this conclusion to all post-Keynesian contributions to the GMP. Ackay and Jungmann (2021), for example, do provide a detailed assessment of the political economy in Poland and Turkey from the growth strategy perspective. Also, Stockhammer, Durand & List (2016) evaluate some European growth models by stressing "the nation-state as a locus of institutionalised class compromises and demand regimes". Finally, Passos and Morlin (2022) provide hypotheses on the political economy of growth regime changes in Latin America. However, none of them proposes a detailed assessment of how politics has been intertwined with growth trajectories

seems odd that, despite their sympathetic position towards Kalecki's theory, neither Baccaro and Pontusson nor post-Keynesian critics claimed his contribution as capable of offering a contemporary framework that links economics and politics to elaborate on capitalist diversity. The lacunae associated with the absence of Kaleckian distributive conflict did not go unnoticed by Stockhammer and Kohler (2022, p.15): "Curiously, there are hardly any PK studies that follow up on Kalecki's famous (1943) paper that argues that capitalists may object to full employment policy as it undermines their power vis-à-vis labour". The authors, however, did not dedicate specific attention to that.

Although one could think of several explanations for this oblivion, it is true that contemporary political economy issues faced by the GMP are historically at odds with the issues that called Kalecki's and its followers' attention. Kalecki's elaboration on the political consequences of full employment was published in 1943 and 1944. At that time, as Kalecki himself puts it, economists used to accept the importance of government policies to guarantee the levels of aggregate demand. This could be achieved, for example, by redistributing income towards workers – "the most politically contentious option" (Baccaro & Pontusson, 2016, p. 181) –, stimulating private investment via tax breaks and lower interest rates, and relying on deficit spending. Kalecki elaborates on this last option in his "Political Aspects of Full Employment" and argues that capitalists would show reluctance to these attempts due to three main reasons.

First, the government's interference on employment levels would affect "the link between their own investment decisions and the state of the economy" which might "undermine business confidence, since capitalists would believe that future business prospects depended on the pursuit of 'sound' financial policies" (Henley, 1989, p. 439). Second, capitalists would fear long-term crowding-out effects on investment which would imply an increasing state competition to the private sector and, regarding consumption, increasing subsidisation of mass consumption through a public provision. Finally, capitalists (and rentiers) would fear the "social and political changes resulting from the *maintenance* of full employment", which could increase the working class's discontentment with business leaders (Kalecki, 1943, p. 350). To these points, Fiewel (1974) adds a fourth reason: "the intrinsic apprehension of resulting redistribution of income". In the end, what stems from Kalecki's formulation is that a trade-off between "the economic advantages (employment creation) and the social, political and ideological advantages of reflationary policy" would resume the existence of a "political business cycle" (Henley, 1989, p. 443).

In the 1970s, the economic and political crises in developed countries exposed the exhaustion of the post-war distributive growth experiment. Following the institutional changes that occurred in that context, critical political economists restored Kalecki's formulations on the political business cycle as evidence pointed to the role played by the distributive conflict between labour and capital in the dismantlement of post-war political coalitions that sustained growth models (Bowles; Gordon & Weisskopf, 1986). One group of contributions focused on analysing in more detail the tripartite distributive conflict between workers, functioning capitalists and rentiers (Boddy & Crotty, 1975; Pivetti, 1985; 1991; Panico, 1988; Epstein, 1996; See also, Argitis, 2001). These approaches have elaborated on the consequences of capital income squeezes produced by a rising wage share considering the interactions between rentiers and functioning capitalists within the state, or, in other words, taking into account the influence of macroeconomic policy. In turn, another group dedicated attention to the state's influence over the distributive conflict. More specifically, contributions tried to mensurate the extent of fiscal policy's influence on the rising labour bargaining power and subsequent squeeze in capital income. To approach this issue, authors estimated the size of the social wage, or the net provision of fiscal policy directed towards the working class (Bowles & Gintis, 1982; Shaikh & Tonak, 1987; 2000)

This literature, however, has bourgeoned in a context of profound institutional changes associated with the setbacks in the stances of collective bargaining and state provision in developed economies (Baccaro & Pontusson, 2016). During this process, distribution has become increasingly oriented against workers, and neoliberal practices have reduced the role of state provisions to the working class. This period was marked by the increasing financialisation and the reorganisation of capital accumulation according to the logic of financial valorisation (Chesnais, 2016). It then brought up new macroeconomic issues, such as the possibility of generating growth with rising inequality. This implied the complexification of the distributive conflict, as distinctions between highly paid workers (managers) and capital owners, for instance, have become blurred (Piketty, 2014; Levy & Duménil, 2018). Last but not least, macroeconomic theory and policy have been reshaped by the emergence of New Keynesian Economics and became increasingly grounded on neoclassical premises, leaving completely aside the concern with full employment (Stockhammer, 2022).

Although it seems clear that the *problématique* of Kalecki's political business cycle refers to another historical context of capitalism, it would be erroneous to assume that debates on the tripartite distributive conflict or the redistributive role of state provision had been abandoned by contemporary critical (comparative) political economy literature. Regarding the first issue, some efforts have tried to identify the relationship between international trends in financialisation and income distribution in national economies (Epstein & Power, 2003; Power, Epstein, & Abrena, 2003; Epstein & Jayadev, 2005; Dünhaupt, 2012; Hein et al., 2017; 2018; See also the first chapter of this document). These contributions have been focused on mensurating the share of national income accrued by rentiers, following the tripartite class segmentation expressed in Kalecki (1943).

Furthermore, recent efforts have focused on the redistributive impact of fiscal policy and discussed the contemporary provision of a social wage (state subsidization of workers' mass consumption). This debate is located in a context of institutional reforms that have structurally changed public provision and, therefore, the design of government policies and its impact on labour bargaining power (Harman, 2008; Blank, 2014; Maniatis & Passas, 2018; Moos, 2019; Missos, 2020, Moos & Qi, 2022). Contemporary social wage estimations indicate that government expenditures with social policies have increased more than tax revenues collected from labour income in developed economies, a result that suggests an extension of the public provision to the working class. Nevertheless, a rising social wage in this context has been associated with weaker unions, stagnant wages, rising inequality and the growing participation of the private sector in the provision of basic services such as health, education, and pensions systems. A hypothesis that follows is that state provisions have been playing a contradictory role in neoliberalism: growing social spending is needed to accommodate the increasing deterioration of workers' reproduction conditions (Moos, 2019).

In sum, despite being focused on singular aspects, the critical political economy literature has provided elements for a contemporary revisitation of the issues exposed by Kalecki in the political business cycle theory. Resulting from empirical assessments of different national economies, conclusions obtained in those efforts emerge as potential elements to inform a comparative political economy framework that reinstates the Kaleckian distributive conflict in the analyses of recent growth trajectories. Despite being true, as pointed out by the GMP and its post-Keynesian critiques, that the past few decades in developed economies have been marked by growth trajectories (and political/institutional determinants) that have little in common with the landscape described in the Kaleckian political business cycle, the same does not apply for Latin American economies.

Between the end of the 1990s and the beginning of the 2000s, Latin American countries saw the emergence of left-wing governments as a response to the neoliberal reforms of previous years. Those electoral victories inaugurated what has been called the "Pink Tide", a shared period of growth that enjoyed favourable conditions in external demand for commodities. During some years, leftist governments managed to ensure fiscal space to improve distributive policies and guaranteed stability by supporting class coalitions. Nevertheless, with the deterioration in external and domestic conditions, keeping the growth pace became more costly in fiscal and political terms. In the end, economic crises led to traumatic political ruptures, most of them followed by a complete change in the macroeconomic policy orientation (Loureiro, 2018). Especially in Brazil, the period also characterized by a growth trajectory with a rising wage share of income which is believed to have intensified the distributive conflict and fragilized the dominant class coalition.

Some recent contributions have analysed this period of Brazilian economy by positioning it under the debate on growth models. While some of them have focused on comparing Brazil's growth model with other peripheral economies by focusing on the behaviour of demand components and growth drivers, others have dedicated a more attentive view to the institutional and political factors that encompassed its (in)stability during the period. None of them, however, has explored the potential of analysing this trajectory by stressing the role played by the distributive conflict from a Kaleckian perspective. In the next section, the main conclusions brought by those interpretations are summarised. Then, the following section proposes an alternative view of the Brazil's growth model following the discussion presented in this section and elaborates on its theoretical and empirical contributions to reinforce the GMP framework.

4.4 The recent Brazil's growth model according to the GMP and its critics

Most of the attempts to analyse the recent Brazilian economic trajectory under the GMP debate were conceived as parts of larger efforts to compare peripheral economies' growth models. Among the post-Keynesians, the few mentions of Brazil were linked to cross-country assessments. Following benchmark analyses for developed economies, these contributions have elaborated on whether peripheral growth models have changed with the 2008-9 international crisis but provided little information on their political and institutional foundations (Jungmann, 2021; Ackay et al., 2022). Overall, they point to a growth model supported by exports at the beginning of the 2000s, which have been substituted by domestic consumption after the crisis. Based on Hein et al. (2020), for instance, Ackay et al. (2022) propose that Brazil's growth model had been "weakly export-led" from 2000 to 2008 and "domestic demand-led with high public sector deficits" from 2009 to 2019, with higher growth rates in the former.[54]. In addition, the authors suggest that a rising wage share of income contributed to the change in Brazil's growth model as it fuelled domestic consumption.

A different perspective is offered by Passos and Morlin (2022). They rely on the decomposition of autonomous and induced demand according to the Sraffian supermultiplier framework and analyse five Latin American economies, following a typology based on the degree of diversification of productive structure (rentier or diversified) and the role played by market institutions in social organisation (liberal or redistributive). These authors reject the 2008-9 crisis as a period divisor and opt to focus on the growth models before and after 2014 when the prices of commodities deceased. They conclude that growth in Brazil before 2014 has been driven by rising exports, redistributive policies (state-led) "such as income transfer, minimum wage raises, and consumption subsidies", and consumer credit (Passos & Morlin, 2022, p. 18). After 2014, however, this "mixed state-export-led model" was impacted by the fall in commodities prices and affected by "stagnation policies". For Passos and Morlin (2022, p.20), these resulted from fragile political coalitions that are likely to sustain redistributive models. Although they do not elaborate further on this, the authors indicate that "politics of fiscal policy are not determined by fiscal constraints but involve political mechanisms such as those highlighted by Kalecki".

Other attempts to analyse Brazil's growth model relinquished large cross-countries comparisons (Nölke et al., 2020; Schedelik et al., 2020; Morgan et al., 2020; Mertens et al., 2021; Sierra, 2022). Perhaps because many of these authors are associated with other fields rather than post-Keynesian economics, a special focus has been directed to political and institutional determinants of the growth model. This may also derive from the shared scepticism on the possibility of summarising peripheral capitalism in rigid typologies: "there is not *a* single growth model for ECEs (Emerging Capitalist Economies)" (Mertens et al., 2021, p.8).

[54] These authors reframe Baccaro and Pontusson's typology by combining the calculation of growth compositions (the contributions of each demand component to GDP growth) with the analysis of financial balances of national economies' institutional sectors. Hein et al. (2020) indicate the existence of four types of growth trajectories or "regimes": the "export-led mercantilist" and the "weakly export-led" regimes, which can be differentiated according to the degree of importance of net exports growth, and the "domestic demand-led" and the "debt-led private demand boom", which are mostly differentiated by the contribution of credit-financed consumption to growth (See also Dunhäupt & Hein, 2019).

In general, these contributions have provided a very detailed assessment of Brazil's recent growth trajectory. They all emphasised the importance of anti-poverty policies and the role played by both the minimum wage and the credit policy to support domestic consumption. Nevertheless, for most of them, Brazil's growth model has been largely determined by the economy's external sector and, therefore, followed the interests of political coalitions associated with commodity production and exports.

Mertens et al. (2021), for example, suggest that Brazil's openness to international markets destabilised the export-led model when the prices of commodities fell. In addition, the overvalued currency would have increased the risk of deindustrialisation as it redirected increasing domestic demand to foreign companies. Also, investments would have been oriented to "booming commodity sectors rather than manufacturing […] which, together with rising spending on pensions, social benefits and an array of subsidies to uphold domestic consumption, contributed to a rapidly deteriorating fiscal situation" (p. 17).

Regarding the political foundations of the growth model, those authors stress the particular "state-business" relations in developing countries, in which "informality as a general trait plays a stronger role and hence, social blocs may also be established on the grounds of reciprocal, informal and interpersonal relations between capitalists and bureaucrats in non-democratic settings" (p. 19). Following this, Brazil's social bloc would have been constituted around the interests of "large corporations in construction, agribusiness, finance and steel sectors" which benefited from the boom in consumption and "fostered direct ties to members of the PT (Workers' Party) administrations", forging a clientelist alliance. The dismantlement of the clientelist bloc would have been associated with changes in the macroeconomic policy in 2011 (and to the increasing combat to corruption) which ended up in the return of a "neoliberal, extractivist platform" (p. 21). Nölke et al. (2020, p. 325) add to the clientelist interpretation an ideological element: the instability of the social bloc in Brazil would have derived from the lack of consensus on the national development trajectory to be pursued: "a deep ideological rift between a liberal and a state-capitalist faction existed from its inception, both within the governing coalition as well as between the government and large groups of outward looking-domestic capital".

For Sierra (2022, p.184), the dissolution of the coalition that sustained the Workers' Party's governments also occurred at the beginning of the 2010s. In this case, however, the main reason was the overvalued currency, which would have mobilised urban/industrial sectors against government policies that favoured rural sectors: "able to compensate for a less competitive exchange rate with higher commodity prices, they (agricultural exporters) were less affected by currency appreciation than industrial export and import-competing industries. In a similar tone, Morgan et al. (2020) argue that the Workers' Party attempted to overcome the limitations of the export-led model by building “a social bloc which would enable him (Lula da Silva) to extract significant concessions out of business corporations and the wealthy” which entailed the absence of large institutional changes that could harm this dominant group. For them, the deterioration in commodity prices and the consequent fall in tax revenues would have represented a “threat of new taxes and new tax rates from Dilma (Rousseff) and her supporters to bridge the gap" (p. 11), a sufficient reason to "re-articulate a neo-liberal framing for a new social bloc […] based on an export-led commodity growth regime".

Finally, a critical appraisal of those hypotheses suggests some caveats. First, they seem to overemphasise the role played by the commodities boom in recent Brazil's growth trajectory. As put by Serrano and Summa (2012), export growth decelerated after 2006 in Brazil when its role for aggregate demand growth was substituted by the increase in domestic consumption. A consequence of underestimating this change might lead to biased political assessments concerning the role of rural and exporter elites. Second, it entails from most of those contributions that Brazil has been trapped in the export-led growth model, which becomes a sub-optimum equilibrium for Brazil (and other Latin American economies). It indicates a detachment from Baccaro and Pontusson’s suggestion that growth models present inner instability. Third, the treatment of social blocs as plural constructs offers a detailed vision of the underlying politics of growth models but might blur the recognition of dominant interests and their relationship with growth determinants. For example, the interpretations fail to appoint the main players in the coalition that sustained the Workers' Party, usually underestimating the role played by workers. This could be associated with the absence of mentions of the distributive conflict as a potential destabilising mechanism of social blocs.

4.5 The political business cycle and Brazil’s growth model

This section relates Brazil’s growth model with the rise and fall of the Worker’s Party governments (2003-2016). It focuses on the three pillars of the growth model literature associated with peripheral economies: the demand-oriented economy, the socio-political determinants, and the integration into the global economy. Although it replicates the assessment of Brazil's growth model based on the growth contributions of the demand components (Baccaro & Pontusson, 2016) and the evolution of financial sector balances (Hein et al., 2020; Ackay et al., 2022), it acknowledges that those instruments "simply identify the most dynamic aggregate demand components, but do not provide information on why that GDP component grows" (Stockhammer & Kohler, 2022, p.11).

The analysis of Brazil's growth model, therefore, is complemented by the framework employed by those two authors. According to Stockhammer and Kohler (2022, figure 2), growth models represent temporary successful combinations of economic and political-institutional foundations. To assess them, one should take into consideration the economy's growth drivers – the distinct factors that, despite not constituting the aggregate demand, are responsible for mobilising changes in its components. Some examples are the level of household indebtedness, changes in income distribution, competitiveness, commodity prices and fiscal policy (Stockhammer & Kohler, 2022; Kohler & Stockhammer, 2021; Stockhammer & Onaran, 2022; Jungmann, 2021).

Growth drivers are also related to demand and supply regimes based on the Neo-Kaleckian framework (Bhaduri & Marglin, 1990; See also: Lavoie & Stockhammer, 2012). As the demand and the supply regimes are structural (and long-term) properties of growth models and refer to "the marginal effects of changes in certain variables on aggregate demand and labour productivity" (Stockhammer & Kohler, 2022, p.9), they will not be the extensively discussed here[55]. Consequently, the focus will be on growth drivers and their interaction with socio-political determinants.

Nevertheless, Stockhammer and Kohler (2022) do not elaborate on the political-institutional foundations of growth models, indicating convergence with Baccaro and Pontusson's (2016; 2020) original proposal. The innovation of the present analysis is to consider these foundations as related to the distributive conflict that stems from Kalecki's theorisation on the political business cycle.[56]. Thus, this interpretation reinstates the importance of social classes as they originate in productive relations but are manifested only

[55] Nevertheless, there exist important discussions on these issues. Carvalho and Rugitsky (2015) summarise some of the different efforts in classifying the demand regime in Brazil during the past two decades. They emphasise that contradictions may arise from specific points of view and point to the limits of classifying the Brazilian demand regime as profit- or wage-led. Considerations on the pattern of technical progress and labour productivity behaviour are available in Marquetti and Porsse (2014).

[56] One must recognise, however, that the recent Brazilian economic trajectory is very suitable to this analytical perspective. As political business cycles depend on particular historical conditions of national economies, this approach might not be appropriate to assess the rise and fall of growth models in other countries.

in the political arena (Singer, 2012; See also Marx & Engels, 1948)[57]. Inevitably, it ends up moving away from the traditional assessment concerning the sectoral interests of dominant social blocs.

The following discussion also stresses some premises that arise from the reconsideration of CPE under the post-Keynesian theory. First, it refers to a specific period of the Brazilian economy which coincides with the Workers' Party government.[58]. Second, it recognises the unstable nature of growth models, in contrast to the stable equilibrium that characterises the VoC typology. Thus, the underlying hypothesis is that the rise and fall of the recent Brazil's growth model was intertwined with the rise and fall of the Worker's Party governments.

In 2002, the union leader Lula da Silva was elected for the first time to a four-year presidential mandate. As previously mentioned, the ascendance of Lula and the Workers' Party must be considered under a Latin American context that favoured leftist electoral platforms as they offered resistance to the advances of neoliberal reforms (Loureiro, 2018). Lula was re-elected in 2006 to another mandate, and his successor Dilma Rousseff also managed to win the elections twice, in 2010 and 2014. In 2016, however, Rousseff's mandate was impeached by a parliamentary coup. During this period, the Brazilian economy has grown 2.5 per cent on average, the higher record being 7.5 per cent in 2010 and the lowest being -3.5 per cent in 2015. In the end, it has been a slightly redistributive growth trajectory that especially favoured the poorest ones (Medeiros et al., 2015; Silveira & Palomo, 2023). This suggests that neither the coincidence between Lula's mandates and the booming economy nor between Rousseff's political deterioration and the busting economy are by chance. On the contrary, we argue that it stems from intrinsically related political, institutional, and economic conditions.

4.5.1 Reassessing Brazil's growth model under Workers' Party governments

We begin by offering a landscape of the behaviour of demand components in the period. In Table 11, growth contributions are presented to four subperiods, each one corresponding to the mandates of the Workers' Party – Lula I (2003-3006), Lula II (2007-

[57] It does not mean to understate the importance of using other perspectives in income distribution for understanding the political business cycle in Brazil. For example, see Loureiro (2019) for a complement to the composition of the Brazilian class structure.
[58] Although we do not disagree with Baccaro and Pontusson's point regarding the unnecessary coincidence of the electoral cycle, political coalitions and growth model, Brazil's recent political economy seems to offer a convergence between these three elements.

2010), Rousseff I (2010-2014) and Rousseff II (2014-2016). As in Hein et al. (2020), Table 12 improves the analysis by presenting the trajectory of the financial balances of Brazilian institutional sectors.

Table 11- Growth contributions for the 2003-2016 period in Brazil by demand component[59]

Demand component	Lula I	Lula II	Rousseff I	Rousseff II	Workers' Party
	2003-2006	2007-2010	2011-2014	2015-2016	2003-2016
Net exports	0,44%	-1,18%	-0,29%	1,87%	-0,03%
Private consumption	1,87%	3,46%	2,14%	-2,23%	1,82%
Government consumption	0,57%	0,64%	0,32%	-0,11%	0,42%
Investment	0,59%	1,96%	0,19%	-3,16%	0,33%
Real GDP growth	3,52%	4,64%	2,35%	-3,42%	2,51%

Source: System of National Accounts - Brazil.

Table 12 - Financial balances of institutional sectors for the 2003-2016 period in Brazil

	Lula I	Lula II	Rousseff I	Rousseff II
	2003-2006	2007-2010	2011-2014	2015-2016
External Sector	-0.5%	2.3%	3.7%	2.2%
Corporate sector	2.0%	0.0%	-0.9%	2.9%
Government Sector	-3.7%	-3.7%	-3.5%	-7.5%
Household sector	2.3%	1.4%	0.7%	2.4%

Source: System of National Accounts - Brazil.

Results indicate both divergences and convergences with previous assessments of Brazil’s growth model. Table 11, on the one hand, suggests that the contribution of exports to growth might have been less important than described by the literature. In addition, it indicates a relative increase in the growth contribution of investments in the 2007-2010 period, a feature that has not been previously emphasised in the analysis of Brazil’s growth model. On the other, it converges with most of the interpretations by indicating the significant role of household consumption in the 2007-2014 period. Table 12 complements this general assessment by pointing to the oscillations of the current account balance and the worsening of financial positions of both corporate and household sectors in the 2011-2014 period. It also

[59] See Stockhammer and Kohler (2022, fn 10) for an equation of the growth contributions.

indicates the deterioration of the government's financial position in the last years of the Workers' Party administrations.

Ackay et al. (2022) suggested that Brazil's growth model until 2008 was "weakly export-led" as the following features hold: i) positive financial balances of the private (corporate and household) sector, ii) negative financial balances of the external sector, iii) positive balance of good and services, and iv) negative growth contributions of net exports. From 2009 to 2019, however, it was defined as "domestic demand-led with high public deficits" as it presented: i) positive financial balances of the private sector, ii) balanced or positive financial balances of the external sector, iii) growth contribution basically associated with domestic demand and iv) near-zero growth contributions of net exports.

Following the division indicated in Tables 11 and 12, none of the four periods meets the requirements to fit in the proposed categorisation. On one side, it suggests that changes in the periodisation might impact data adherence to the proposed categories. This reinforces Baccaro and Pontusson's critical position towards the construction of typologies. On the other, however, it is true that the Workers' Party administrations account only for a share of the years analysed by Ackay et al. (2022), which might indicate different results.

Even so, a more detailed assessment of the proposed periodisation indicates the insufficiency of the existing interpretations that attribute large importance to the external sector in Brazil's recent growth model. In the 2000s, the boom of commodities indeed brought dynamism to the Brazilian export sector. From 2000 to 2005, for instance, net exports increased from 0.5 to 4.7 per cent of the Brazilian GDP, and the financial balance of the external sector went from 5.1 per cent of GDP in 2001 to -0.9 per cent in 2005. However, converging with the literature, Tables 11 and 12 indicate that exports had become less determinant to growth as domestic consumption and investments increased their relative importance after 2006 (Serrano & Summa, 2012). This is perceptible both by the surge in growth contributions of household consumption and investment in the 2007-2010 period.

Still, the role played by the external sector in providing conditions for the surge in domestic demand should not be underestimated. In Lula I (2003-2006), the domestic demand benefited from "an initial exchange-driven rise in real wages" that fostered "a virtuous circle of economic growth pulled by the domestic market in 2005-2006" (Barbosa-Filho, 2008, p. 195). In Lula II (2007-2010), this movement was fuelled by a complementary set of policies. As put by Rossi, Mello and Bastos (2020), the government engaged in the formation of a "mass consumer market" by relying on four main drivers: a robust scheme of income transfers (the *Bolsa Família* is the most emblematic example), a wage policy that promoted real labour gains through regular readjustments in the minimum wage; a credit policy to households and corporations; and, finally, a fiscal policy oriented to social infrastructure that implied investments in public health and education facilities (Barbosa-Filho, 2008; Gobetti, 2015).

As suggested in Passos and Morlin (2022), these particularities of the Lula II period indicate that the recent growth trajectory of Brazil counted on a (redistributive) state action that has been underexplored by the literature on growth models. In Table 11, this role can be inferred not only by the growth contributions of government consumption by also by looking at the investment component. As mentioned by some interpretations, the Lula II period was characterised by an increase in state-owned companies and central government's investments. It was possible due to the reduction of primary surplus targets and institutional mechanisms that allowed the exclusion of capital expenditures in its calculation (Chernavsky et al., 2020; Serrano & Summa, 2015).

Although the impact of the 2008-9 crisis did not represent the discontinuity that some interpretations attribute to Brazil's growth model, Table 11 and Table 12 show that some significant changes occurred after the election of Dilma Rousseff in 2010. The Rousseff I period (2011-2014) was characterised by the deterioration of Brazil's current account, which is expressed in the surge of the external sector's financial balance. In addition, the financial position of both corporate and household sectors has reached near-zero positions which, following the typology of Hein et al. (2020), might represent one of the indicators of a "debt-led private demand boom". Moreover, both growth contributions of government consumption and investments have been relatively lower in comparison to Lula II. Finally, the Rousseff II period confirmed the deteriorating tendency of growth contributions as the recession took place.

The Brazilian literature situates the gradual disintegration of the growth model in the period that goes from 2011 to 2014 (Rousseff I) (De Paula et al., 2015; Serrano & Summa, 2018; Rossi et al., 2020). Although international prices had recovered from the 2008 shock, external demand retreated as the euro crisis burst, and China's economy slowed down. In addition, some authors stress that Brazilian macroeconomic policy management has been either laggard or erroneous, leading to unintended deteriorating fiscal results (Serrano & Summa, 2015; Orair & Gobetti, 2017). Finally, it is noticeable that domestic demand was more constrained than in previous periods as, for example, households and non-financial companies' indebtedness levels hit records in the period (Rezende, 2016; Garber et al., 2019).

Even so, Rousseff I did not relinquish the set of policies established in Lula I and Lula II: though at lower rates, social spending continued to increase; income transfers were kept and expanded, and the minimum wage policy remained active (Chernavksy et al., 2020; Rossi et al., 2020). Nevertheless, although the 2014 elections reaffirmed the approval of the growth model pursued by the Workers' Party until then, the following years seemed to have demonstrated signs of its exhaustion. Rousseff II was characterised by a turnover in fiscal policy towards a large cut in government expenditures. Also, it was marked by a retreat in the employment level, especially concerning formal occupations, which had increased since 2004.

The impact on domestic demand influenced the position of the external sector, as Brazilian imports fell more than exports during Rousseff II. This might explain the positive growth contributions of net exports in Rousseff II (Table 1), especially because the exchange rate depreciation after 2014 was also accompanied by a fall in the international prices of commodities.[60] As pointed out by some interpretations of the Brazilian economic crisis, this might have influenced the deterioration of the financial balance of the government sector, as both the end of the commodities boom, and the slowdown of domestic demand led the corporate sector to improve its financial balances by reducing investment activity. Consequently, a stronger demand contraction might have furthered pressures on primary results (Table 2) (Borges, 2016; Rezende, 2016; Kirsten & Morrone, 2019).

The crisis was rapidly followed by political discontentment that led to the interruption of Rousseff's second mandate in 2016. The new government formed by the opposition committed to changes in the macroeconomic policy mix. By focusing on the improvement of fiscal results, President Michel Temer's government (2016-2018) reframed the Brazilian institutional framework by approving long-term restraints to increases in government expenditures and diminishing labour protection via changes in the legislation. It also aimed at reducing the scope of the Brazilian pension system, a project that was consolidated in the far-right administration of Jair Bolsonaro (2019-2022) (See Chapter 2 in the present document). From Rousseff's impeachment to 2020, when the Covid-19 pandemic hit the country, Brazil's economic performance had been tepid, presenting an average real GDP growth rate of 1.44 per cent. For the 2017-2019 period, growth contributions of exports, investment and

[60] Curiously, this is a similar case to the example used by Kohler and Stockhammer (2022) to criticise the GMP's reliance on growth contributions. The authors show that when Baccaro and Pontusson's composition analysis is extended for the period after the 2008-9 crisis, countries that were apparently associated with the export-led model do not present notable export performances but have been characterised by a slowdown in the growth of imports provoked by the fall in domestic demand.

government consumption presented near-zero averages, the recovery of private consumption being the main responsible for that performance.

4.5.2 The limits and contradictions of Brazil’s redistributive growth model

The analysis of growth contributions and financial balances for Brazil indicates that the growth model literature has underestimated the role of domestic consumption. However, it converges with other efforts in suggesting Brazil's growth model was exhausted after 2014 due to its economic and political-institutional foundations. As put by Mertens et al. (2021) but also reaffirmed by several political economy interpretations, the interruption of the Workers’ Party governments in 2016 seemed to represent a discontinuance of the growth model in force at the time, as institutional and policy changes have pointed to the return of a neoliberal trend regarding macroeconomic policy and state management (Saad-Filho, 2019; Martins & Rugitsky, 2021).

This change derives from a particular consequence of Brazil's growth model during the Workers’ Party governments that neither can be inferred by Table 11 and Table 12 nor has been adequately emphasised by the growth model literature: a gradual redistributive tendency. Several studies for the period, for instance, have offered evidence on the impact of increasing social spending in reducing Brazil’s Gini index (Lustig, Lopez-Calva & Ortiz-Juarez, 2011; Silveira, 2008; 2012; Silveira et al., 2011; Silveira & Passos, 2017; Silveira et al., 2020; Silveira et al., 2021; Silveira & Palomo, 2023). This falling inequality, however, has been specifically characterised by the stability of top incomes: “elites still managed to capture disproportionate fractions of total growth due to their disproportionate share in total income” (Medeiros et al., 2018; Morgan, 2017, p.31). Still, the preservation of top incomes did not ensure political conditions to guarantee the stability of Brazil's growth model for a longer time. On the contrary, recent evidence suggests that the redistributive trend was terminated after Rousseff's removal, and since then, the country has been experiencing significant reversions regarding poverty and inequality levels as well as in labour market conditions (Baltar, 2020; Souza et al., 2022).

At this point, however, some queries arise. First, how did growth drivers and socio-political determinants forge the redistributive growth model in Brazil? Second, which factors explain its demise and possible substitution? The argument here is that, on one side, the Workers’ Party administrations have counted on specific growth drivers that made it possible for Brazil to overcome existing limitations to sustain growth based on domestic demand. But, on the other side, this new growth model unveiled previously unnoticed contradictions that suggest limits for the redistributive experience. As Kalecki (1943) put it, those contradictions stem from the intensification of the distributive conflict in capitalist democracies on the way to full employment.[61]

Following the GMP, we argue that in addition to favourable drivers, the temporary stability of Brazil's growth model relied on political arrangements (class coalitions) and institutional mechanisms. According to Singer's (2012; 2020) argument, Brazil's growth model under the Workers' Party has depended on the success of "Lulism" – a contradictory and potentially unstable arrangement that focused on favouring the "subproletariat" (a fraction of the working class) without confronting the capitalist class.[62]. The subproletariat has historically represented a large share of the Brazilian working force that can be defined as being underpaid to the point that it cannot access normal conditions for social reproduction. Although it contrasts with the traditional organised working class concerning its aims, both converge in supporting full employment "as it creates favourable struggle conditions for the working class as a whole" (Singer, 2012, chapter 3)[63]. In addition to the subproletariat, Lulism has been organised around two class coalitions: the "rentier" – which included the "financial capital and the traditional middle class" – and the "productivist" – composed of "industrial entrepreneurs associated with the organised fraction of the working class" (Singer, 2020, p. 156). Singer (2020) argues that while the rentier coalition was associated with the neoliberal macroeconomic agenda and the international dimension of capital accumulation, the productivist coalition was sympathetic to state interventionism and tolerated more changes in income distribution.

Lulism galvanised and articulated the subproletariat around its project because it offered the "expectation of a state that is strong enough to reduce inequalities without threats to the established order" (Singer, 2012, pp.51-52). In other words, it meant an increase in the subproletariat's living standards (by improving income and controlling inflation) that did not aim at political radicalisation. The latter element implied a constant effort to manage the

[61] Summa and Serrano (2017, p.352) point out that genuine full employment is unlikely in peacetime democracies, especially in developing economies that count on disguised unemployment. However, they recall Kalecki's argument that labour bargaining power can benefit from "persistently lower trend rates of unemployment" […] ", especially under favourable political and institutional circumstances".

[62] In a similar perspective to the adopted here, Singer (2012; 2020) provides an alternative understanding of the political forces that were at stake during the Workers' Party government as he emphasises the importance of domestic class disputes vis-a-vis the interpretations that overestimate the role played by the international arena.

[63] Following Singer (2012), the only project of the subproletariat is to disappear or, in other words, to become part of the traditional working class. However, contrary to the former, the latter does not aim for its extinction but has a historical project defined by the struggle for rising equality.

relations between the two coalitions and the subproletariat. Singer (2012) situated the beginning of Lulism in 2006 when Lula's re-election suggested for the first time that the poorest voters had massively adhered to the Workers' Party platform. Switching back to the economic foundations of Brazil's growth model, this coincides with the moment in which the role of domestic demand became prominent. Nevertheless, the basis for the conciliation of class coalitions lay in decisions taken during Lula I: while it committed to the conventional macroeconomic framework (the macroeconomic tripod), it also managed to expand social assistance to the poorest ones. Consequently, if Lula I had organised the foundations of Lulism, Lula II would have proportioned "the realisation of a complete class (or class faction) program" that had been focused on the subproletariat (Singer, 2012, chapter 1).

Singer's (2020) hypothesis suggests that the stability of Brazil's growth model lasted until Rousseff I when the intensification of the distributive conflict imploded the productivist coalition. On one side, the government tried to reinforce Lulism by betting "on a coalition between industrialists and workers to sustain a developmentalist turn" (Singer, 2020, p. 152). On the other, it understood that a confrontation with the "rentier" coalition was a necessary (and perhaps sufficient) condition to that. This confrontation, however, was at odds with the conciliatory nature of Lulism. In the end, Rousseff's government would have underestimated the convergence between industrial and rentier capitalists around a neoliberal (or anti-redistributive) project. Among the reasons for that, Singer (2020) highlights the imbrication of rentier and productivist interests, the power of rentier ideology, the political aspects of full employment (Kalecki, 1943), and the realignment of international forces after the 2008 crisis.

Following Singer's arguments, it is possible to assess the rise and fall of the Lulism experiment by looking at the drivers of Brazil's redistributive growth model during the Workers' Party administrations. Back to the analysis of Table 11 and Table 12, at least four growth drivers of Brazil's redistributive growth model can be identified: i) international prices, ii) real wage gains, iii) fiscal policy, and iv) rising household debt. The following paragraphs elaborate on how they have contributed to the (in)stability of Brazil's redistributive growth model.

We begin by looking at international prices. Here, they refer to the boom of commodities and the role played by international interest rates. Due to the subordinated nature of the financial integration of peripheral economies, interest rate differentials may determine the degree of a country's financial exposition and how it benefits or is harmed by that (Kaltenbrunner & Painceira, 2015; Gallagher & Prates, 2014). Although the growth model literature has extensively discussed the impact of the commodities boom on Brazilian exports, a more subtle particularity refers to its effect on the country's degree of external vulnerability. Martins and Rugistky (2021) argue that business cycles in Latin America have been historically interrupted by the impact of external shocks on the balance of payments. Nonetheless, it did not happen during the whole Workers' Party period, even with the effects caused by the 2008-9 international crisis. Although the role played by macroeconomic policy responses to the crisis should not be understated, the accumulation of foreign reserves provided a more comfortable position for the country regarding the degree of its exposition to external shocks (Biancarelli et al., 2017).

More important, however, was the influence of the international interest rates in the Lula I period. In the early 2000s, developed economies saw their interest rates fall consistently. As put by Barbosa-Filho (2008, p. 198), while it helped to reduce the cost of the external debt for the Brazilian economy, it also benefited the adherence of Lula I to the macroeconomic tripod: "by setting its base interest rate well above international interests rates, the Brazilian Central Bank induces an appreciation of the Brazilian exchange rate, which in turn brings the inflation rate for tradable goods down."[64]. At the time, for some specific reasons (the strong depreciation in 2002 due to reactions to Lula's election, for instance), the Brazilian nominal exchange rate acquired ample space to appreciate without compromising the country's account (it went from 3.08 in 2003 to 1.83 in 2008) (Biancarelli et al., 2017).

In terms of political economy, the strong appreciation of the Brazilian exchange rate in the 2000s has been underestimated by the growth model literature. As Singer (2012) argued, the exchange rate appreciation was the most straightforward path available to Lulism to maintain inflation under control and improve the living conditions of the subproletariat. It was also a sensitive topic for the rentier coalition, as the combination of high interest rates and overvalued currency allowed the improvement of rentier gains and the expansion of access to foreign markets for the traditional middle class. To the productivist coalition, the importance of an overvalued currency was more difficult to measure: in the short term, the industry could benefit from falling imported input prices and increasing demand associated with inflation

[64] Gallagher and Prates (2014, p.1) highlight that the combination between rising commodity prices and significant interest rate differentials in the Brazilian case relates to the financialisation of commodity prices – "a growing influence of financial investor positions in commodity futures markets". It led to speculations in the foreign exchange market that were determinant to maintain a trajectory of exchange rate appreciation until the 2010s.

control; however, changes in the productive structure caused by extensive periods of currency appreciation could harm competitiveness in the long run (Carvalho & Rugitsky, 2015)

At the end of the 2000s, the concern with the effects of a persisting overvalued currency gained momentum. Despite the sharp depreciation caused by the 2008 crisis shock, the Brazilian nominal exchange rate rapidly recovered its path, mainly due to the high differential interest rates. Nonetheless, the long trajectory of currency appreciation was interrupted in mid-2011, as the government began to use policy measures to regulate the capital account and contain the effects of foreign exchange market speculations on the Brazilian exchange rate (Gallagher & Prates, 2014). It occurred a few months after a statement that reaffirmed the convergence of the organised working class and the industrial capitalist fractions: the productivist coalition expressed its concern about the impact of imports on the productive domestic structure as the economy had been focusing on the exports on primary commodities (Singer, 2020). Coincidence or not, the fact was that the value of the nominal exchange rate level became a concern for the macroeconomic policy framework by 2011. This policy reorientation led Fritz and Prates (2018) to suggest that the government adopted a "dirty inflation targeting" regime, in which currency depreciation was not only tolerated but even worthwhile. Consequently, the potential impact on inflation put the paramount example of the Lulism institutional commitment to the rentier agenda (the macroeconomic tripod) at risk.[65]

Indeed, Summa and Serrano (2017, p. 353) demonstrate that the inflation target regime has only worked when it has been associated with an exchange rate appreciation led by interest rate differentials: “when the central bank is not able to appreciate the nominal exchange rate, either because of deteriorating external conditions (1999-2003 and 2008) or for political reasons (2011-2014), tradable inflation in local currency goes up and makes it more difficult to reach the inflation target”. Summa and Serrano (2017) define the “political reasons” as the deliberate choice of the macroeconomic policy in not avoiding a spiral of currency depreciation that started with the impact of the Eurozone crisis in Brazil and lasted until 2014.

For these authors, the exchange rate depreciation unveiled a "structural trend of wage inflation" that until then had been counterbalanced by the exchange rate appreciation since Lula I. From where did this structural trend come? The answer lies in the ability of the

[65] Gallagher and Prates (2014) indicate that after 2011, a convergence occurred between the government's beliefs on the exchange rate policy, an industrial sector affected by overvaluation, and an export sector that "is not as interconnected with the global financial sector as in many other countries."

government to explore the indirect channels that potentialise the redistributive effects of a booming economy within the labour market. First, Lula's administration committed to a permanent policy of valorisation of the real minimum wage that lasted until the end of the Workers' Party governments (Melo et al. 2012). Second, it elaborated policies that both stimulated the increase of formal labour contracts and extended the concept of formalisation to expand access to social security benefits (Kerstenetzky & Machado, 2018).[66] Consequently, from 2003 to 2014, the Brazilian labour market experienced a fall in unemployment and a consistent and generalised decrease in informality levels combined with rising remuneration in formal, informal, and domestic employment.[67]It indicated an improving position to the subproletariat: on one side, it enjoyed more opportunities to pursue its disappearance by accessing both the social security system and the formal labour market; on the other, it assured better living conditions while subproletariat, as the value of the minimum wage became more influent on determining informal remunerations (Medeiros, 2015a; Loureiro, 2019). Not surprisingly, those changes manifested in a surge in the wage share of income from 52.3 in 2003 to 57.5 in 2015 and the consistent reduction of wage inequality (Carvalho & Rugistky, 2015; Rugitsky, 2017; Kerstenetzky & Machado, 2018; Dweck et al., 2022).

When the "dirty inflation targeting" took place in 2011, the trajectory of real wage gains had already demonstrated its potential impact on the distributive conflict. Martins and Rugitsky (2021, p. 384) show that the expansion that characterised Lula I and Lula II periods "was close to turning into a profit squeeze when it was suddenly cut short by the contagion effect of the crisis that began in the United States". By 2008, for instance, the Brazilian economy's degree of utilisation and the capacity/capital ratio reached their peak for the 1996-2016 period. Also, falling unemployment had been tightening the labour market and the economic growth attached to a cumulative distributive process: “changes in wage inequality impacted consumption patterns, leading to shifts in the sectoral compositions of output and employment; the latter, in their turn, had effects both on the functional income distribution and on wage inequality, reinitiating the cycle” (Martins & Rugitsky, 2021, p. 387).

Consequently, following Martins and Rugitsky (2021, p. 386), the fast economic recovery after 2008-9 rapidly turned into a profit squeeze. Until 2009, growth has been

[66] Kerstenetzky and Machado (2018) highlight the importance of the "second-best formalisation", which has provided access to social security without legal contracts. Examples of incentives to that category are the micro-entrepreneur program (MEI) and the law of domestic servants.

[67] Reinforcing the role of a domestic demand impact, Dweck et al. (2022, p.21) provide evidence that “distributive gains and improvements in the labour market in the analysed period (2004-2013) are not directly associated with the commodities boom”.

concentrated in "sectors with below-average profit shares", and the increase in the wage share did not exert pressures on profits. From then to 2014, however, tightening the labour market led to a generalised sectoral contraction of the profit share and, therefore, squeezed capital income. Hence, rising productive costs came in a threefold set: currency depreciation, rising inflation and increasing labour bargaining power (Summa & Serrano, 2017; Singer, 2020; Martins & Rugitsky, 2021). In a Kaleckian fashion, the aggravation of the distributive conflict due to a profit squeeze might explain the rupture of the productivist coalition and the mobilisation of industrial capitalists against the developmentalist agenda, despite their sympathetic position towards a more flexible macroeconomic policy mix.

Still, Singer (2012) indicates that compared to other leftist experiences in history, the increase in the minimum wage during the 2000s can be considered timid, denoting the weak character of the Lulism reformist agenda. In that case, how could it be so relevant to the intensification of the distributive conflict? Brito et al. (2017) indicate that the redistributive impact of the minimum wage has been associated with the payment of social security benefits. In that case, two singularities of the Brazilian constitutional framework have determined the rising expenditures with social policy: i) the rule that attaches the value of the minimum wage to most of the benefits, and ii) the nexus affiliation-contribution-benefit, or, in other words, the right of formal workers to access a large set of social security benefits (Kerstenetzky, 2017; Arretche, 2018; Silveira et al., 2020). Consequently, as discussed in the second chapter of this document (See Table 7), the net social wage (or the net result of fiscal policy appropriated by the working class) went from -1.18 per cent of the GDP in 2004 to 4.47 per cent in 2016. It indicates a growing participation of the state in subsidising the costs of the reproduction of the labour force. Most of this upward move stemmed from expanding access to social security due to formalisation and the increased value of benefits paid due to a rising minimum wage.

Following the Kaleckian tradition, the rising net social wage suggests an increasing government contribution to the profit squeeze (Bowles & Gintis, 1982; Shaikh & Tonak, 1987). In that case, workers' bargaining power does not emerge only from tightening the labour market but also from the increasing subsidisation of the labour force reproduction via public provisions of direct and indirect income (Oliveira, 1985). The recent trajectory of the net social wage in Brazil suggests it has acquired a pro-redistributive trend as the mentioned constitutional mechanisms exert pressure on fiscal policy by forcing increases in the size of social security spending. Although being a determinant for a redistributive fiscal policy, one must consider social security spending alongside other attempts to increase the role of fiscal policy as a growth driver.

It became particularly evident in the Lula II period when government expenditures were expanded to include public investments and to enlarge public health and education provisions. Although very susceptible to junctural conditions (it became possible due to the accumulated primary surpluses during the preceding years), one should not undervalue the meaning of this temporary expansion of fiscal policy reach: it had reclaimed a new (though anachronic) role for the Brazilian state which pointed to the restoration of its leading position both in promoting economic growth and building a welfare model oriented towards universalisation. In this sense, the fiscal policy adds to Singer's (2012, chapter 3) hypothesis that “the Lulism has introduced the *New Deal* in the national imaginary”. It does not surprise, therefore, that the rupture in class coalitions (and the exhaustion of Brazil’s growth model after 2016) led to consistent institutional reforms oriented to both the limitation of the state's spending capacity and the effectiveness of its redistributive mechanisms (See Chapter 2. See also: Dweck & Teixeira, 2017; Serrano & Summa, 2018; Saad-Filho, 2019; Singer, 2020; Martins & Rugitsky, 2021)

Finally, an assessment of the last growth driver – the rising household indebtedness – completes the analytical framework that situates the distributive conflict at the centre of Brazil's growth model analysis. At first glance, an increasing household indebtedness may indicate, at least concerning the structural conditions imposed by financialisation, that Brazil had been following the path of developed economies. It, however, is only partially true, as it represents a consequence of the variegated financialisation that characterises peripheral economies (Karwoswsky, 2020). First, rising household indebtedness stemmed from a deliberate policy choice to expand credit and extend access to the financial system (See chapter 1). Second, it has been fundamentally associated with consumer credit offered to the working class.

An emblematic example is the consigned credit for public servants, retirees, and pensioners established in 2003 (Lavinas, Araújo & Bruno, 2017). Finally, if the share of household income compromised with indebtedness jumped from 16.5 per cent in 2005 to 40 per cent in 2015, it did not happen, as in most developed economies, in substitution of real wage gains (Barba & Pivetti, 2009). On the contrary, it accompanied the increase in the wage share and the rising net social wage.

Therefore, one can interpret a rising household indebtedness during the Workers' Party administrations as a catalysing but also a counterbalancing feature of Brazil's redistributive growth model. The first is straightforward: the combination of real wage gains, rising state provisions to the working class, and increasing household indebtedness are likely to impact aggregate demand growth significantly. However, since it did not appear essential to the growth model, the increase in household debt during the period functioned as a catalyser of private consumption (Table 11). The second particularity, however, refers to more subtle mechanisms that have implications for distributive conflict.

The financialisation literature has primarily stressed the role of interest gains in sustaining rentier coalitions in Brazil. It has roots in a tradition of high interest rates, which could be attributed not only to the particularities of inflation and exchange rates in peripheral economies but also to the influence of rentier coalitions on the macroeconomic policy mix (Lavinas et al., 2017; Bresser-Pereira et al., 2020). However, during most of the Workers' Party period, there has been a significant change in this tendency: from 2004 to 2013, the real policy rate went from 12.8 per cent to 2.2 per cent (Table 5). As shown in the first chapter of this document, the falling interest rate has impacted rentier income, but from 2005 to 2011, this has been compensated by a surge in the interest payments originating from the household sector, a practical result of the credit policy that characterised the Lulism programme. After 2011, however, the deceleration of household indebtedness, together with the reduction in the basic interest rate, has been one of the factors that produced, in 2012-2013, a rentier income squeeze.

Nevertheless, despite the influence of the debt cycle in Brazil's redistributive growth model, a rentier squeeze cannot be fully assessed without considering the turnover, in Rousseff I, to a developmentalist agenda. As previously mentioned, the government's attempt to re-establish the productivist coalition under a new basis implied a response to industrialists' demands that clashed with rentier interests. Indeed, besides engaging in a "dirty inflation targeting" regime, the government pressured for more reductions in the basic interest rate and actively aimed at financial profits by using the public banks to reduce interest spreads, breaking the "détente with rentierism" (Singer, 2020, p. 155). Given the sensible situation of the distributive conflict at the time, the profit squeeze turned into a rentier squeeze, but instead of opposing industrialists and rentiers, it pushed them to form a joint opposition against the government.[68] In a very Kaleckian fashion, avoiding full employment by containing the state's support for the reproduction of the working class became the appealing solution to the distributive conflict. Hence, "boom-tired" rentiers and squeezed capitalists reacted to Brazil's redistributive growth model (Kalecki, 1943; Boddy & Crotty, 1975)[69].

Nonetheless, a final question remains: why did rising household indebtedness represent a counterbalancing feature of Brazil's redistributive growth model? The answer lies in the trajectory of the rentier income share: when functional income distribution takes it into account, the wage share for the 2003-2011 period in Brazil presents a falling trajectory, increasing only during the rentier income squeeze (2012-2013) (See Chapter 1, Figure 3). Rising household debt might have implied a redistributive trend in which real wage gains have been constantly transformed in interest payments.[70] This observation might indicate, for example, a potential source of explanation for the stability of top incomes observed in personal income distribution during the Workers' Party governments (Medeiros et al., 2015).

Therefore, Rousseff I (2011-2014) expresses the paroxysm of Brazil's redistributive growth model. On one side, looking at the business cycle, this is the period when the main growth drivers show their contradictions and begin to decelerate. On the other, the distributive conflict imposes zero-sum conditions for the continuity of demand growth and dissolves the basis of Lulism. Moreover, it also indicates that new contradictions arose within a peripheral growth model when the role played by the external sector was less prominent. Restrictions to growth, therefore, hit on the traditional contradictions of capital accumulation. This conclusion, however, applies to a redistributive experience and may not arise in different contexts. Finally, the assessment of Brazil's recent growth model suggests two considerations. First, due to its unique historical conditions, it might be challenging to reproduce similar growth trajectories in the future as it would count on new restraints inherited from the previous cycle. One example is the size of the household debt in Brazil which is likely to remain far from 2003 levels. Another refers to changes in the productive structure as, for

[68] Following Singer (2020), the imbricated interests of industrialists and rentiers could have been determinant in explaining their joint rupture with the government: "As a captain of industry, the entrepreneur wants cheap credit and, therefore, interest rate reductions. However, as the owner of a conglomerate that is also financial, he aspires to high interest rates. The productive character of the activity in which this entrepreneur is engaged impels an alliance with the workers, but the link with the financial component of profits makes this impulse susceptible to reversal when the general environment changes" (Singer, 2020, p. 161).

[69] By looking to the forces within coalitions, conclusions might be blurred due to the division of the working class between organized workers and the subproletariat, but also considering the role played by the traditional middle class. One possible path of analysis is given by Loureiro (2019, p.6): "The only large group to have lost in relative terms was professional workers, to the benefit of low-skilled informal ones.".

[70] More than that, depending on the origins of these household transfers (whether they come from consigned credit to public servants, for instance), there could have been a situation in which income flowed from the government to the financial sector by passing through households.

instance, recent growth has favoured the sector of services to the detriment of the industrial one (Rugitsky, 2017). The second consideration refers to the contradictions arising from pursuing a redistributive growth model in a financialised (neoliberal) context. As suggested by the relationship between the rentier and the wage income share, redistribution might be captured by the financial sector. It can occur in the realm of the markets (credit) but also via the state (financialisation of social policy and commodification of public goods) (Lavinas, 2017; Loureiro, 2019).

4.6 Concluding remarks

The GMP has already proved capable of reformulating the fundamental questions investigated by CPE. By relying on a framework that highlights the role of demand in economic growth and interprets it in light of the socio-political determinants, the GMP relinquished the employment of rigid typologies to assess the origins of national capitalist diversity. This initiative has been praised and criticised by economists, sociologists, and political scientists in the past few years. Specifically, post-Keynesian economists have pointed to some theoretical misconceptions in the GMP and have proposed expanding its framework to deal with some underlying features of contemporary capital accumulation. Nevertheless, post-Keynesians have yet to contribute much to reframing the traditional GMP approach regarding its socio-political determinants. This consists of a remarkable observation once the theory of Kalecki and Neo-Kaleckians is central to the GMP framework.

This article tried to address this lacuna by offering a two-sided contribution to the growth model literature derived from the GMP. On one side, it proposed to reconcile the influence of Kalecki's theory on the economic foundations of the GMP with his insights on the political consequences of full employment. In our view, by reinstating the importance of Kalecki's political business cycle, it becomes possible to assume the distributive conflict as a central element in analysing growth models' socio-political determinants. Consequently, both the economic and political foundations of the GMP can then lie in the same theoretical approach. On the other side, this article suggests that recent Brazil's redistributive growth model can serve as a reference to illustrate the role played by the distributive conflict in relating the economic and political foundations of growth models.

By associating the growth trajectory of the Brazilian economy with the rise and fall of the Workers' Party governments in Brazil, this article provided an alternative interpretation of

Brazil's recent growth model. As other assessments, it recognises the role of the external sector in economic growth. However, it suggests that it should not be overestimated, especially considering the importance of private consumption to aggregate demand after 2005. Although it did not dismiss the analysis of growth contributions and financial balances, it focused on the growth drivers of Brazilian economic activity from 2003 to 2016, the period associated with the Workers' Party's political cycle: international prices, real wage gains, fiscal policy, and rising household indebtedness. These drivers are considered not only because of their contribution to growth, but mainly due to their relationship with the class coalitions (rentier and productivist) that are situated at the origins of Lulism, a non-conflicting political arrangement focused on the reduction of poverty and inequality.

The reassessment of Brazil's growth model indicates that while those growth drivers were central to the consolidation of Lulism, the redistributive growth that they mobilised ended up unveiling contradictions that became manifested in the intensification of the distributive conflict. Both the changing nature of growth drivers and the inner contradictions of redistributive growth have then contributed to the dismantlement of class coalitions that sustained the Lulism experience between 2006 and 2010. Consequently, it represented the exhaustion of Brazil's redistributive growth model. Although the intention here was not to investigate what followed it, recent institutional changes that tend to diminish the redistributive potential of economic growth in Brazil suggest its substitute's neoliberal (anti-redistributive) tone.

5 CONSIDERAÇÕES FINAIS

Essa seção busca retomar brevemente algumas das conclusões obtidas a partir da investigação da dinâmica do conflito distributivo brasileiro entre 2000 e 2020. Destaca-se que os três ensaios que compõem esse documento procuraram se debruçar sobre algumas particularidades do recente ciclo de crescimento econômico redistributivo, não tendo a intenção de esgotar a totalidade dos aspectos que mobilizaram a economia política brasileira no período. Dessa forma, ainda que a pesquisa tenha contribuído para identificar algumas das contradições que emergiram do crescimento redistributivo experienciado no Brasil, estas precisam ser consideradas à luz da multiplicidade de variáveis que definem a complexidade do objeto aqui investigado. Uma vez feita esta ressalva, pode-se prosseguir para uma avaliação mais pontual de cada ensaio.

No caso do primeiro, destacam-se três contribuições centrais para a agenda de pesquisa em questão. Em primeiro lugar, a partir da distribuição funcional da renda estendida, foi possível quantificar o montante da renda nacional que vem sendo apropriado pelo rentismo no Brasil. Assim, propôs-se uma análise que considera, para além da oposição entre capital e trabalho, a contradição interna à apropriação dos ganhos com a acumulação, isto é, a disputa entre rentistas e capitalistas. Esse passo analítico permitiu, em segundo lugar, que fosse possível avançar na compreensão dos efeitos distributivos do aumento do endividamento das famílias brasileiras no período, identificando um mecanismo de expropriação financeira (mobilização dos salários para pagamento de juros) potencialmente capaz de ter revertido – ou ao menos atenuado – a trajetória de elevação da parcela dos salários na renda que ocorreu entre 2004 e 2015. Tal possibilidade converge, por exemplo, com as recentes observações de que há certa estabilidade nos rendimentos do topo da pirâmide brasileira, mesmo diante de uma redução da desigualdade de renda no país. Finalmente, foi possível prosseguir para uma avaliação mais pontual da economia política brasileira, indicando que o esgotamento do mecanismo de expropriação financeira pode ter contribuído para aumentar as pressões sobre a renda dos rentistas entre 2012 e 2013, intensificando o conflito distributivo e contribuindo para a crise político-institucional.

Em relação ao segundo ensaio, avançou-se no entendimento do papel cumprido pela política fiscal na mediação do conflito distributivo entre capital e trabalho no Brasil. A partir da estimação do salário social líquido, identificou-se uma trajetória de elevação da provisão feita pelo Estado à classe trabalhadora que começou em 2004 e só foi contida em 2017. A resiliência da trajetória redistributiva, que persistiu com a reversão da agenda fiscal em 2015, indica certas particularidades do salário social líquido ao longo deste período.

Primeiro, seu crescimento foi fundamentalmente baseado na expansão do gasto social, especialmente aquele associado à seguridade social. Em segundo, isso foi possível graças à ativação de mecanismos institucionais com potencial redistributivo, ou seja, resultou da capacidade do governo em mobilizar certas especificidades do funcionamento do Estado brasileiro para ampliar o efeito redistributivo da política fiscal. Como exemplo, destaca-se o aumento regular do salário-mínimo e o incentivo à formalização, cujo impacto indireto na seguridade social tende a ser significativo.

O potencial de tais mecanismos pode, portanto, ter contribuído para a intensificação do conflito distributivo brasileiro via política fiscal, na medida em que um aumento da provisão do Estado à classe trabalhadora coexistiu, entre 2004 e 2015, com a elevação da parcela dos salários na renda. Como indicado, há coincidência entre o acirramento das tensões de classe em 2014 e a emergência de um discurso pró-austeridade, o qual pautou a agenda de reformas institucionais levadas à diante após o impeachment de 2016. Sugere-se, enfim, que a resiliência da orientação redistributiva da política fiscal pode ter contribuído para uma convergência em torno da necessidade dessas reformas.

Finalmente, o terceiro ensaio tomou como ponto de partida os caminhos percorridos ao longo dos outros dois para oferecer uma contribuição crítica à economia política comparada, tendo em vista a recente remodelação do campo a partir da literatura associada aos modelos de crescimento (*growth models)*. Particularmente, o ensaio reconhece o potencial analítico do arcabouço associado aos modelos de crescimento, que recoloca o papel cumprido pela demanda no centro da explicação sobre as diferentes trajetórias percorridas pelas economias capitalistas. Ademais, discute a importância da convergência entre a economia política comparada e a macroeconomia pós-keynesiana, indicando que há, nessa conjunção, um caminho profícuo.

Ressalta, entretanto, a fragilidade teórica do arcabouço dos modelos de crescimento no que se refere à identificação dos vínculos entre os fundamentos econômicos e os determinantes político-institucionais (ou sociopolíticos). Se, por um lado, a contribuição teórica de Kalecki aparece como central para os primeiros, ela é praticamente negligenciada na análise dos últimos. Assim sendo, o ensaio propõe a reconciliação do arcabouço de análise dos modelos de crescimento por meio dos ciclos econômico-políticos de Kalecki. A partir dessa formulação, propõe-se que a análise do conflito distributivo pode servir como elemento aglutinador dos fundamentos econômicos e dos determinantes sociopolíticos que configuram um determinado modelo de crescimento.

Para ilustrar essa hipótese teórica, o ensaio propõe, enfim, uma reinterpretação do modelo de crescimento brasileiro das últimas décadas por meio da associação entre a ocorrência de um ciclo de crescimento redistributivo e de um ciclo político caracterizado pelos governos do Partido dos Trabalhadores (2003-2016). Em oposição a outras interpretações, o argumento desenvolvido ressalta a importância do lado doméstico da demanda para o modelo de crescimento. Reconhece, assim, a existência de cinco motores do crescimento (*growth drivers)* – preços internacionais, ganhos salariais reais, política fiscal e aumento do endividamento das famílias – e a relação destes com a manutenção temporária das coalizões de classe (rentista e produtivista). Sugere-se, com isso, que a relação entre esses fatores sustentou, durante certo tempo, um modelo de crescimento redistributivo no Brasil. Conclui-se, no entanto, que os mesmos motores que contribuíram para a fundamentação do modelo, também foram determinantes na sua exaustão. Com o tempo, as tensões associadas ao conflito distributivo emergiram da impossibilidade de conservar as mesmas condições de relação entre os motores do crescimento e as coalizões de classe que estavam postas no despontar do modelo de crescimento redistributivo.

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