The Limits of Pragmatism

The Rise and Fall of the Brazilian Workers' Party (2002–2016)

by
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Under favorable external circumstances, the pragmatic political and economic strategy of Brazil's Partido dos Trabalhadores (Workers' Party—PT) helped to secure short-term political stability, boosted growth, and supported an unprecedented distribution of income. However, it also meant that the PT had to accommodate to rather than transform the constraints on growth in Brazil and that stability would involve unwieldy political alliances preventing deeper reforms. When it was confronted with deteriorating global economic conditions and increasingly ineffectual economic policies, the PT's strategy immobilized the party, facilitated the dissolution of its base of support, and expedited its ouster from power. The Brazilian experience suggests that political pragmatism can, within limits, support progressive economic change but that the outcomes depend heavily on external circumstances and the stability of the political coalitions supporting the administration.

Em circunstâncias externas favoráveis, a pragmática estratégia política e econômica do Partido dos Trabalhadores (PT) ajudou a assegurar a estabilidade política no curto prazo, impulsionou o crescimento e apoiou uma distribuição de renda sem precedentes. No entanto, isso também significou que o PT teve que se acomodar a, em vez de transformar, as restrições ao crescimento no Brasil, e que a estabilidade envolveria alianças políticas comprometedoras, impedindo reformas mais profundas. Quando foi confrontada com a deterioração das condições econômicas globais e apresentando políticas econômicas cada vez mais ineficazes, a estratégia do PT imobilizou o partido, facilitou a dissolução de sua base de apoio e acelerou sua saída do poder. A experiência brasileira sugere que o pragmatismo político pode, dentro de certos limites, apoiar a mudança econômica progressista, mas que os resultados dependem muito das circunstâncias externas e da estabilidade das coalizões políticas que apóiam a administração.

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Global conditions were exceptionally supportive of economic development in the early 2000s because of the combined effects of the "Great Moderation" in

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the United States, relative prosperity in the EU, and rapid growth in China. Most low- and middle-income economies benefited from the high export prices associated with the so-called commodity supercycle and from abundant inflows of capital (Saad-Filho, 2013). These conditions facilitated the implementation of pragmatic and nonconfrontational reformist policies in the administrations led by the Partido dos Trabalhadores (Brazilian Workers' Party—PT)—the pursuit of progressive outcomes through a "path of least resistance." This strategy included the commitment to the "rules of the game," preserving the constitution, and redistributing income flows at the margin through transfer programs and improvements in the labor markets while leaving unchallenged the (highly unequal) distribution of assets and avoiding extrainstitutional mobilization, ideological confrontation, or appeals to class-based politics.

Under favorable external circumstances, the PT's path of least resistance supported an unprecedented virtuous cycle including growth, distribution, and domestic political stability. However, this strategy purposefully bypassed the party's historical ambition to transform the system of accumulation and the long-term constraints on growth in Brazil; in the medium term, the strategy's viability depended on conditions that were either ignored or taken for granted. Their eventual disappearance dissolved the party's base of support, disabled the party at a crucial historical juncture, and facilitated the overthrow of President Dilma Rousseff in 2016.

This argument is developed in five sections. Following this introduction, the next section summarizes the "success story" of the 2000s through an examination of the political and economic dynamics in Brazil and the drivers of growth and distribution during that period. It focuses on the minimum-wage and federal income transfer programs (especially the conditional cash transfers and the expansion of public pensions and other benefits) and the relaxation of the balance-of-payments constraint on growth because of high commodity prices and abundant international liquidity. The third examines the macroeconomic limitations to the PT's strategy, focusing on the inadequacies of the Brazilian industrial structure, the deterioration of the country's relationship with the global economy, rising current-account deficits and inflation, and the diminishing scope for distribution. These problems suggest that pragmatic economic strategies are intrinsically limited and that their exhaustion was likely to undermine the PT's sources of political support. The fourth explains the PT's continuing attachment to its pragmatic strategy even as the political and economic crises in Brazil spiraled out of control. This is illustrated through four moments: the failure of the "new economic matrix" in 2011–2013, the government's disregard for the mass protests of June 2013, the economic policy turnaround after the 2014 elections, and the PT's decision to follow a nonconfrontational strategy even as Rousseff was being impeached. The fifth section offers conclusions.

THE ECONOMIC UPSWING

Between 1988 and 1994, the dominant system of accumulation and the main strategy of development in Brazil shifted from import-substitution industrialization to neoliberalism. This systemic change was achieved through institutional

TABLE 1
Contribution of Sources of Demand to GDP Growth Rate (Net of Their Impact on Imports), Brazil, 2003–2015

	Private Consumption (% of total)	*Government Consumption (% of total)*	*Investment (% of total)*	*Exports (% of total)*	*GDP Growth Rate (% of total)*
2003–2005	1.3(40)	0.5(14)	0.1(3)	1.5(44)	3.4(100)
2006–2011	2.6(59)	0.5(12)	1.0(23)	0.2(6)	4.4(100)
2012–2015	0.6(198)	0.2(63)	−0.7(−230)	0.2(69)	0.3(100)

Source: Based on Souza Júnior (2016).

changes and policy reforms including the liberalization of trade, finance, and capital flows, changes in labor law and the patterns of employment, and the stabilization of the currency through the "real plan" (named after the country's new currency; see Saad-Filho and Morais, 2018). Neoliberalism promoted a modality of accumulation based on the financialization of production, social reproduction, and the state, and much greater integration of Brazilian capital into transnational circuits through foreign direct investment, mergers and acquisitions, portfolio investment, and participation in global value chains. In the new policy regime, the manipulation of interest rates became centrally important for inflation control, exchange rate stability, balance-of-payments equilibrium, and the financing of the state.

The macroeconomic consequences of neoliberalism included markedly lower growth rates of the gross domestic product (GDP), deindustrialization and reprimarization of the economy, higher unemployment and precarization of labor, and a regressive shift in the distribution of income. The fragilities of this system of accumulation help to explain the 1999 exchange rate crisis and the loss of political legitimacy of neoliberalism (Arestis and Saad-Filho, 2007). They also contributed directly to the election of PT candidate Luís Inácio (Lula) da Silva to the presidency in 2002, which brought high expectations for a new policy compact securing higher growth rates and less inequality. These outcomes were achieved, at least in part, but with significant drawbacks.

Brazil experienced a growth surge during the Lula administrations (2003–2006, 2007–2010; see Table 1). This surge can be divided into two phases. The initial uptick was driven by the devaluation of the real in 1999, the global economic boom in the early 2000s, and the expansion in Chinese demand for primary commodities. They contributed to a significant increase in the country's earnings from trade as the volume of exports increased by 64 percent and prices by 24 percent between 2001 and 2005.[1] Export growth accounted for 43.5 percent of the increase in aggregate demand between 2003 and 2005. This was the main factor lifting the GDP growth rate from 1.1 percent in 2003 to 5.8 percent in 2004. The global boom also brought rising volumes of foreign direct investment and portfolio flows: net inflows were around US$15 billion in 2003 and 2004 and climbed to US$116 billion in 2010; they remained around US$80–100 billion per year subsequently (see Figure 1).

The growth impulse due to rising exports was limited by the government's decision to maintain the neoliberal "policy tripod" introduced by the previous

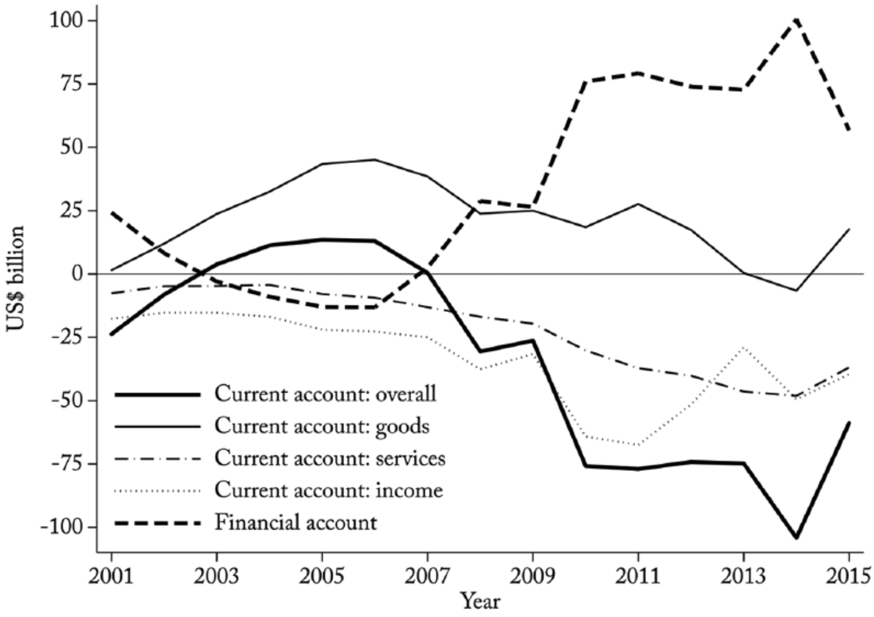

Figure 1. Select balance-of-payments accounts (US$ billion), Brazil, 2001–2015 (Ipeadata.gov.br, BPM6 methodology)

administration, including contractionary fiscal and monetary policies, inflation targeting and floating exchange rates, and liberalized capital flows. Lula's commitment to economic orthodoxy was reinforced by the appointment to the presidency of the Central Bank of Henrique Meirelles, a prominent banker and member of the opposition Partido da Social Democracia Brasileira (Brazilian Social Democratic Party—PSDB). The government also cut fiscal spending by 1 percent of GDP and raised the primary fiscal surplus above the target agreed with the International Monetary Fund (3.75 percent of GDP) to reach 4.2 percent in 2004 and 4.4 percent in 2005. These decisions were grounded in the PT's determination to disarm the opposition, minimize capital flight, and avoid confrontations with finance, industry, or any other powerful group committed to neoliberalism. Given these limitations to the main sources of demand, economic growth could resume only through a fortuitous increase in exports.

The tax revenues drawn from the growth in exports allowed the administration to expand its transfer programs and start raising the minimum wage, setting off a cycle of growth (Corrêa and Santos, 2013). Nevertheless, the contractionary macroeconomic policies associated with the tripod limited the expansion of GDP to 3.2 percent in 2005. This setback eventually convinced the administration that orthodox policies could not deliver sustained growth despite the favorable external conditions. In his second administration, Lula introduced a policy inflection, including selected neodevelopmentalist initiatives in addition to the neoliberal tripod (Morais and Saad-Filho, 2012). Neodevelopmentalism draws upon several heterodox traditions in economic thought, especially the evolutionary, post-Keynesian, and Latin American structuralist schools. This framework considers that the "old" Latin American

TABLE 2
Key Labor Market Indicators, Brazil, 2001–2014

Year	*Index of Total Employment*	*Unemployment Rate (%)*	*Index of Real Minimum Wage*	*Index of Average Earnings from Main Job*	*Informality Rate (%)*
2001	100.0	10.1	100.0	100.0	58.3
2002	103.4	9.9	96.8	97.1	58.4
2003	104.6	10.5	105.3	90.9	57.6
2004	108.3	9.7	107.5	91.4	56.6
2005	110.8	10.2	118.0	95.4	55.5
2006	113.2	9.2	133.9	103.2	54.3
2007	115.1	8.9	138.3	106.8	53.4
2008	118.6	7.8	141.8	109.6	50.9
2009	119.6	9.1	152.6	112.2	50.4
2010	–	–	157.2	–	–
2011	121.4	7.3	158.4	123.8	47.1
2012	123.5	6.7	170.2	131.6	46.3
2013	123.7	7.1	175.8	144.6	45.4
2014	127.1	7.5	176.7	154.8	46.5

Source: Ipeadata.gov.br.

developmentalism associated with the work of the UN Economic Commission for Latin America in the 1950s–1970s and import-substititution industrialization failed because it was not conducive to the internalization of the sources of technical progress and the concentration of income and wealth. Against these limitations, the emerging neodevelopmentalist tradition suggests that government policies should aim beyond the mainstream goal of monetary stability and focus, instead, on a broader set of distributive and growth-promoting fiscal, financial, monetary, exchange rate, labor, and social policies (Bresser-Pereira, 2005). For example, for Sicsú, Paula, and Michel (2007: 509), the key analytical principles of neodevelopmentalism are that

> (1) there is no strong market without a strong state; (2) there will be no sustained growth . . . without the strengthening of the market and the implementation of adequate macroeconomic policies; (3) strong markets and states will only be built by a national development project that conciliates growth . . . and social equity; and (4) it is not possible to [reduce] inequality without consistently high growth rates.

This policy inflection, including selected elements of neodevelopmentalism in addition to the policy tripod, was successful for a limited time. Approximately 21 million jobs were created in Brazil during the 2000s, of which 90 percent paid less than one and a half times the minimum wage and 80 percent were in the formal sector (Pomar, 2013). Real average earnings rose 70 percent between 2003 and 2014, while informality declined by 11 percentage points and unemployment by 3 percentage points (Table 2). In contrast, the number of jobs paying more than five times the minimum wage declined sharply (Saad-Filho, 2014). These developments had immediate distributional implications. For example, the proportion of wages fell from 50 percent of national income in

1980 to 36 percent in the early 2000s, recovering to 50 percent in 2011 (Pochmann, 2011: 16; Pomar, 2013: 42). Key to these progressive outcomes was a more aggressive minimum-wage policy, which raised it by 34 percent in real terms between 2006 and 2012. This increase had a considerable impact on the lower segments of the labor market, since according to a 2005 national survey of sample households 73 percent of formal employees and 47 percent of informal workers and the self-employed earned between one and three times the minimum wage in 2005 (by 2011, those numbers had risen to 79 percent and 49 percent).

The impact of the minimum wage extends well beyond the labor market, since it often determines pensions, social security, and unemployment benefits. For example, between 2002 and 2010 government transfers to households rose by almost 2 percentage points of GDP; 40 percent of this increase can be attributed directly to the minimum-wage policy (IPEA, 2010: 104–109). The federal income transfer programs also expanded significantly, with the number of beneficiaries rising from 14.5 million to 24.4 million between 1995 and 2011; social spending rose by nearly 200 percent in real terms during this period, climbing from 11.0 to 16.2 percent of GDP (Saad-Filho, 2015).

The growth of aggregate demand was also fueled by personal debt, which increased from 18 percent of disposable income in January 2005 to 42 percent in December 2011 (BCB, 2016). Credit growth was due both to higher debt for households that were already included in the financial sector and the extension of loans to new consumers. For example, the proportion of households earning up to three minimum wages with at least one credit card increased from 15 to 25 percent between 2005 and 2010; for those with incomes between three and five minimum wages, card use rose from 30 to 43 percent (Lavinas, 2015).

The government also capitalized the Banco Nacional de Desenvolvimento Econômico e Social (National Bank for Economic and Social Development—BNDES), which provided loans and other financial support especially to large domestic firms ("national champions"). Those included Itaú and Bradesco (banking), Embraer (aviation), Odebrecht (construction), Vale (mining), Inbev (beverages), Gerdau (steel), and Friboi and Brazil Foods (processed foods) (Boito Jr., 2012). In 2007 the federal government launched a "growth acceleration program" focusing on investments in infrastructure, followed by a large housing program. It also provided additional funding for education, health, and other public services and expanded the civil service, aiming to recover policy-making capacity and reduce subcontracting. Rising public expenditures, transfers, and investment had no adverse macroeconomic implications. They were funded almost entirely by the additional tax revenues and social security contributions due to faster growth, the expansion and formalization of employment, and rising exports. The average primary fiscal surplus fell only marginally between 2003 and 2008, when it reached 2.3 percent of GDP, while the domestic public debt declined from 55 percent of GDP in 2002 to 40 percent in 2010 (Morais and Saad-Filho, 2012).

Higher minimum wages and transfers, credit, fiscal activism, and booming exports sustained a virtuous circle of growth and distribution that drove an unprecedented reduction in poverty and inequality during the PT administrations. Brazil had 60 million poor people in 1993 (41 percent of the population) and the same number in 2003 (35 percent). Poverty fell rapidly, to under 30 million people (15 percent of the population) in 2012.[2] In turn, the Gini coefficient of household per capita income, which hovered under 0.60 between the mid-1970s and 2001, declined to 0.53 in 2012. Approximately 55 percent of its decline was due to labor market improvements, 22 percent to state pensions, and 17 percent to other income transfer programs such as the conditional cash transfer scheme Programa Bolsa Família (Family Benefit Program) (Hoffmann, 2013). Nevertheless, tax returns data suggest greater inequality than the household surveys, smaller distributional improvements, and stability in the top incomes. For example, the top 0.1 percent appropriated around 10 percent of national income between 2006 and 2011, while the top 1 percent captured 25 percent of national income. The combination of tax returns with household surveys suggests that the Gini coefficient of household per capita income remained stable around 0.69 between 2006 and 2012, largely because of the contribution of capital-related income sources (mainly profits and interest), which, in Brazil, are not subject to taxation (Gobetti and Orair, 2016a; 2016b; Medeiros, Souza, and Castro, 2015a; 2015b).

In other words, during the PT administrations there was redistribution of income through expanded access to public pensions, conditional cash transfers, and more equal earnings in the labor market, while the profound inequalities in capital income were left untouched. As the incomes of the poorest rose, poverty declined, and wages became less unequal; in the meantime, the rich preserved their income share. This implies that the distribution of income through wages and transfers would inevitably be limited; that the middle class would be squeezed by the ability of the rich to maintain their position, the improvement in the lot of the poor, and the scarcity of well-paid jobs; and that distributional improvements would raise costs in the urban services sector, which was labor-intensive and in which most low-wage employment was concentrated, triggering inflationary pressures disproportionately affecting the middle class as a heavy net buyer of those services.

The internalization of the sources of growth during Lula's administration can be explained by the macroeconomic policy change implemented in 2006 and the deterioration of Brazil's current account in the wake of the global economic crisis starting in 2008. Between 2006 and 2011, exports contributed only 5.6 percent of GDP growth (an average of 0.2 points per year). Their role was dwarfed by government consumption (11.8 percent, or 0.5 points), private investment (23.3 percent, or 1.0 point), and, especially, private consumption (59.2 percent of growth, or 2.6 points per year) (see Table 1; Santos et al., 2012; Santos, Modonesi et al., 2016). The volatility and limited influence of investment helps to explain why the Brazilian growth spurt never became a sustained cycle of accumulation. Finally, even though exports and capital inflows did not influence growth very significantly, they helped to displace the balance-of-payments constraint: Brazil's foreign currency reserves rose from US$54 billion in 2005 to US$379 billion in 2012, or from 6.1 to 16.8 percent of GDP (BCB, 2016).

In summary, the growth process under Lula was driven initially by exports and subsequently by public policies that raised the lowest incomes, especially through the minimum-wage and transfer programs, supported by personal credit; in contrast, exports gradually lost relevance, and government spending and autonomous private investment were always secondary. Faster growth increased the demand for low-skilled labor, further lifting incomes through labor scarcities and the formalization of labor and reinforcing the links between growth and distribution (Rugitsky, 2016). High commodity prices and abundant international liquidity alleviated the balance-of-payments constraint on growth, as the trade balance remained positive for most of the period and there were no currency crises. Finally, the appreciation of the domestic currency helped to reduce inflation. In other words, the Lula administration delivered growth and distribution through a limited and nonconfrontational set of income-based policies that under favorable external conditions could be sustained by market processes. However, private investment failed to pick up, no significant transformations took place in the productive matrix, public investment was insufficient to modernize the country's infrastructure, and there was no attempt to address the inequalities in the distribution of assets or even to tax the highest incomes.

Throughout this period, the political opposition to the PT was led by the PSDB, which had occupied the government between 1994 and 2002. The PSDB had gradually lost support because of its questionable privatizations, limited creation of employment, and increasing informalization of labor and its mishandled economic policy in the late 1990s, which led it to be associated with the exchange rate crisis of 1999 (see Saad-Filho and Morais, 2018). In contrast, the PT managed to put together a large political coalition including important fractions of capital and the country's largest unions and social movements (Boito Jr. and Saad-Filho, 2016). Nevertheless, the fragmentation of the political system permanently impaired the PT administrations, since the party could never come close to a majority in the Chamber of Deputies or the Senate (the PT and its reliable allies never controlled more than one-third of seats in Congress; see Albuquerque, 2016). Under these circumstances, it became essential to cultivate alliances with the assorted political parties that controlled around 40 percent of congressional seats. Ultimately, the decision to manage these alliances instead of seeking to mobilize extraparliamentary forces in order to transform the political system would become a decisive factor in the downfall of the PT administrations.

THE LIMITS OF PRAGMATISM

Lula's approval ratings hit record levels as the economy started to grow rapidly (at least in comparison with the semistagnation of the previous two decades), and the condition of the poor improved markedly. Not only was he reelected in 2006 but he secured the election of his chosen successor in 2010: Dilma Rousseff, his former minister of mining and energy and, later, chief of staff. However, the limitations of the PT's pragmatic policies would soon block further gains in growth and distribution and eventually destroy Rousseff's administration. Brazil's manufacturing sector began to contract in the early 1980s. By the mid-1990s, the country showed signs of deindustrialization due to persistently high interest rates, continuing currency overvaluation, and incoherent industrial policies (Nassif, Feijó, and Araújo, 2015). Mining and agribusiness expanded at the same time, leading to the reprimarization of the economy, accompanied by declining competitiveness, sluggish GDP growth, and a deteriorating pattern of employment. These developments also created structural supply problems and made export income highly dependent on global commodity prices.

The country's current-account and trade surpluses peaked in 2006, at US$13 billion and US$45 billion, respectively, but they deteriorated steadily thereafter. A solvency problem was avoided only because Brazil received unprecedented inflows of foreign capital, partly because of the fortuitous programs of quantitative easing in the United States, the UK, the EU, and Japan. Although Brazil's trade in goods remained in surplus until 2013, the growth in export revenues after 2006 was almost entirely due to rising export prices, as the volume of goods sold remained stationary. In contrast, import volume almost doubled. Inevitably, the current account deteriorated after 2007, reaching a deficit of US$100 billion in 2014 (4.3 percent of GDP). The deficit decreased only in 2015 as the Brazilian currency declined in value and the economy collapsed into its worst crisis on record.

The persistent overvaluation of the Brazilian real was the product of the key role of the exchange rate in the neoliberal strategy of inflation control and international integration imposed in the early 1990s and maintained by the PT administrations. The average exchange rate appreciated from R$3.08 per dollar in 2003 to only R$1.67 per dollar in 2011 and then declined to R$2.25 per dollar in 2013. This later depreciation raised import prices in the domestic market, which led the rate of inflation to break through the ceiling of the Central Bank's inflation target range, between 2.5 and 6.5 percent per annum (Braga, 2015; Giovannetti and Carvalho, 2015; Santos, Amitrano et al., 2016). At that point, the government's strategy reached an impasse: continuing attempts to control inflation through high interest rates and an overvalued exchange rate would raise the current-account deficit and worsen the economic slowdown. In contrast, the attempt to contain inflation by limiting the growth of wages and transfers would stall demand, GDP growth, and the gains in distribution. The government opted, instead, to offer subsidies and impose price controls, despite their limited effectiveness and high fiscal costs.

The growth spurt under the PT administrations was based on the expansion of domestic demand, but this growth, accompanied by low investment and lagging growth in productivity, created unsustainable pressures on the balance of payments. Given the continuation of the global economic crisis, Brazil's export earnings were increasingly limited both in quantity and in price. These limitations could be addressed, in part, by a devaluation of the currency; however, this would increase inflation, which was already rising because of the mounting cost of domestic services. In contrast, contractionary macroeconomic policies would stall the PT's model of growth and endanger the government's political reputation. Finally, consumption and investment were constrained by the high level of interest rates (which fostered speculation and the overvaluation of the currency), the hollowing out of manufacturing (which compromised the balance of payments and created undesirable employment patterns), and the tight fiscal rules and financial restraints imposed upon state-owned enterprises (which were prevented from investing to improve the quality of urban life). Given these limitations, the economy could sustain growth only through a renewed external impulse (unlikely, given the global crisis) or a boom in private investment (even more improbable).

THE FALL OF PRESIDENT DILMA ROUSSEFF IN FOUR MOVEMENTS

FIRST MOVEMENT: THE FAILURE OF THE "NEW ECONOMIC MATRIX"

Dilma Rousseff became president in January 2011. Her administration was committed to faster growth and distribution based on a stronger neodevelopmentalist agenda but without abandoning the tripod. Her government introduced a "new economic matrix" aiming to support private investment through a better alignment of monetary and exchange rate policies with the country's industrial policy. This was expected to boost economic productivity by supporting the expansion of infrastructure and other key economic sectors, lowering production costs, and accelerating the development of strategic production chains, especially around oil and other essential inputs. In doing this, the government was hoping to limit the country's current-account deficit. Real interest rates were cut to their lowest level in two decades, and generous tax rebates were offered to stimulate production and reduce inflation. Private operators were strong-armed into reducing electricity prices, national insurance contributions and other labor costs were reduced, and the BNDES was capitalized, becoming the largest development bank in the world. Finally, the government sought to attract private investment into infrastructure through public-private partnerships offering highly advantageous conditions for investors.

Despite these policies and incentives, private investment remained stubbornly low and never became the main driver of economic growth. Persistently low investment and the government's increasingly contractionary fiscal policy reduced the GDP growth rate from 7.5 percent in 2010 to only 1.9 in 2012 (Carvalho and Rugitsky, 2015; Serrano and Summa, 2015). In this period, the subsidies cost 0.2 percent of GDP, rising by another 0.5 by 2015, while public investment fell by 0.5 and the primary fiscal surplus rose by 1.1. Fiscal austerity was justified by the imperative to gain "credibility" in order to attract private investment and the need to compensate for the (expected) expansionary impact of the interest rate cuts. However, since the multiplier effect of public investment is much greater than the expansionary impact of the subsidies (that is, economic activity responds much more strongly to additional government investment than to the subsidization of private activity), the net effect of the government's policies was sharply contractionary (Orair, Siqueira, and Gobetti, 2016: 17). Finally, the external sector failed to recover despite the devaluation of the real because of the continuing global turbulence, the crisis in the Eurozone, and the depression of international commodity prices.

Falling growth rates and rising inflation increasingly undermined the government's political legitimacy. Recognizing the failure of its attempt to reduce interest rates, the Central Bank resumed its commitment to the neoliberal policy tripod; interest rates started rising again in 2013. At the same time, the

Ministry of Finance announced further restrictions on public spending, which compounded the country's economic decline. Even though Brazil's neodevelopmentalist experience was closed, there were still profits to be made: Eike Batista, who became one of Brazil's wealthiest entrepreneurs before his spectacular downfall in 2017, gloated that the public-private partnerships offered business a "happiness kit" (Alves, 2012). The new economic matrix was so closely aligned with the demands of domestic capital that it was called the "Federação das Indústrias do Estado de São Paulo [Industrial Federation of the State of São Paulo—FIESP] agenda" after the economic program of the country's most powerful business organization (FIESP et al., 2011; see also Singer, 2015).

Although the FIESP agenda expressed the demands of important fractions of capital, it did not support a consistent economic policy. It brought large fiscal costs through the provision of a plethora of subsidies without any conditions attached in terms of either investments or performance. Quite the contrary: inflation rose, the current-account deficit increased, private investment fell, and GDP growth tumbled. Shockingly, many businesspeople started complaining about "excessive" state intervention and "lack of access" to a government that was doggedly following capital's own program. As the economy ground to a halt, the government shifted more and more frantically toward orthodox economic policies, aiming to bring large capital back on board. However, orthodox neoliberal policies reduced aggregate demand and employment growth and stalled the distribution of income, which eroded the PT's base of support among the workers and the poor. The win-win class conciliation scenario of the 2000s collapsed: under these adverse circumstances, the pursuit of pragmatic and short-termist policies fueled economic decline and trapped the government into a growing political isolation.

SECOND MOVEMENT: SNUBBING THE STREETS

On June 6, 2013, the radical-left Movimento Passe Livre (Free Fare Movement—MPL) led a small demonstration demanding the reversal of a public transport fare increase in São Paulo. The demonstration was attacked by the police, and several arrests were made. The MPL returned in the following days, and the police responded brutally, beating demonstrators and passersby. The movement escalated and spread nationwide, leading to the largest protests in Brazil in a generation (Moraes et al., 2014; Saad-Filho, 2013; Saad-Filho and Morais, 2014; Singer, 2014). The protesters, including students, left-wing activists, unionists, informal workers, neighborhood associations, and fractions of the upper middle class, expressed a wide range of (often contradictory) demands with regard to public service provision, especially transport, health, and education, and broader issues of governance such as corruption, taxation, privatization, and the administration of justice (see G1, 2013).

The PT could have responded creatively to those demands, channeling them selectively in support of the government's policy agenda. However, this turned out to be impossible under the party's pragmatic strategy for two reasons. First, faltering economic performance had reduced state capacity to reconcile interests through public spending, especially around investment in urban infrastructure, where transformative projects had high costs, long lags, intractable environmental implications, and uncertain political rewards. Second, the PT was politically exhausted, struggling to maintain a working majority in Congress through unstable alliances and incoherent deals with controversial politicians. The party's acrobatics during this period did untold damage to the government's reputation and its mass support.

Instead of recognizing the shifting political atmosphere in the country, the PT persisted with its pragmatic approach to "politics as usual." At the tail end of the demonstrations, the government proposed a reform of the constitution to fix Brazil's dysfunctional political system. When the idea was summarily shot down by an emboldened opposition, including many of the government's supposed allies, Dilma Rousseff was immobilized. In the meantime, the PT and its mass organizations were unable to channel the demonstrations toward progressive ends. This failure was symptomatic of the disconnection of the PT from the majority of the population, the end of the party's political hegemony, and the terminal paralysis of Rousseff's administration. The PT was no longer a transformative political force, and the government was now a sitting duck.

THIRD MOVEMENT: THE POLITICAL TURNAROUND

Rousseff was elected president in 2010 with a 56–44 percent majority against the PSDB opposition candidate. She was reelected in 2014 with a diminished but convincing majority of 52–48 percent, a difference of 3.5 million votes. However, her triumph coincided with the rapid deterioration of the economy. GDP growth rates, which had been declining since 2010, reached zero in 2014, and the distributional improvements that had legitimized the PT administrations evaporated. Strong growth in previous years, coupled with insufficient investment in infrastructure because of fiscal and other constraints, expanded both demand and expectations and created a generalized feeling of the deterioration of public service provision, symbolized by the transport crisis in 2013 and the scarcity of water and the electricity crisis in 2014–2015.

During the 2014 electoral campaign the PT moved sharply to the left, claiming that the PSDB would impose harsh neoliberal policies, overturn labor rights, and reverse the social and economic achievements of the previous administrations. In contrast, Rousseff offered faster growth and continuing improvements in wages, benefits, employment, and social rights. This "left turn" was merely rhetorical. Having won the election and facing a rabidly hostile media and the most right-wing Congress in decades, the PT reverted to pragmatism and desperately sought to placate the opposition. Rousseff dismissed the long-serving neodevelopmentalist minister of finance Guido Mantega and appointed Joaquim Levy, a neoliberal banker selected by Bradesco, one of the country's largest financial conglomerates. He was tasked with implementing a harsh austerity program to reduce the fiscal deficit, restore the government's "credibility," and kick-start the elusive cycle of growth led by private investment. Public spending, investment, and services were cut, followed by unemployment benefits and pensions, just as the PT had suggested that the opposition would have done if the PSDB had won the election.

Despite this turnaround, Rousseff and the PT were unable to secure the support of capital or the upper middle class or stem the vitriolic attacks of the mainstream media; at the same time, they fatally alienated their own base of support in the formal and informal working class and the social movements as the fiscal cuts bit and the economy went into a tailspin because of the lack of demand. It was impossible for the government to cut its way to growth, and its policies were insufficient to secure the support of any major constituency: each concession was met by growing opposition and escalating demands. At that stage, political pragmatism and attempts to make deals with the opposition had become wholly counterproductive. With each round of cuts and concessions, more allies were lost. The hemorrhage had become uncontrollable.

FOURTH MOVEMENT: THE COUP D'ÉTAT

The right-wing opposition to the PT had been rudderless for years. The PSDB had neither plausible ideas nor a positive reputation, since its policies were directly responsible for the 1999 crisis, and the other political parties were generally devoid of ideology; most Brazilian parties are simply tools for the promotion of their leaders and for the capture of public resources. In the mid-2000s, the situation became so desperate that the mainstream media openly took the mantle of opposition, driving the anti-PT agenda (Farah, 2010; LEMEP, 2016).

Corruption was the ideal pretext for destroying the PT. During the 1990s, the PT had thrived in opposition, presenting itself as the only honest party in Brazil. This strategy worked extremely well, but it contained a lethal contradiction: in order to win expensive elections with a moderate platform, manage local governments, and sustain a working majority in the legislature through sprawling coalitions and case-by-case deals, the PT would *have* to get dirty in potentially compromising ways. Yet the party succeeded for several years, winning elections at all levels. As the PT prospered and federal power came within its grasp, the party became increasingly concerned with "governance" and "stability" and increasingly avoided confrontations with current, prospective, potential, or necessary allies. This political practice required the abandonment of the PT's earlier commitments to reform campaign finance, the media and electoral law, increase the influence of the workers in their places of employment, and democratize the state-owned enterprises.

In 2005, Lula's administration was severely destabilized by the Mensalão scandal, which was based on unproven allegations that the government was paying members of Congress a monthly stipend in exchange for their votes. In turn, in 2014 the Car Wash scandal unveiled an extraordinary tale of bribery, plunder of public assets, and funding for all major political parties, drawing upon the state oil company Petrobras and its suppliers in the oil, shipbuilding, and construction industries. Parallel investigations dredged up allegations of malfeasance in other industries. Several politicians and many of Brazil's wealthiest businessmen were imprisoned; their plea bargains ensnared others in a never-ending cycle of political destruction obsessively targeting the PT and Lula himself.

In the meantime, the opposition started proceedings to impeach President Rousseff because of alleged irregularities in government spending (no personal gain was ever suggested). The PT and other left parties and social movements denounced the impeachment as a coup, given the insignificance of the accusations: at best, they hinged on a technicality; at worst, they would implicate most state governors as well as Dilma's predecessors, who always tweaked their budgets. In the melee, the economic crisis, rising unemployment, gargantuan corruption, and a torrent of political scandals became thoroughly enmeshed, while the mainstream media trumpeted daily that the PT was at the center of a web of thievery without precedent, with Lula and Dilma robbing the republic during the day while at night they conspired to turn Brazil into a satellite of Venezuela.

Despite the mounting threats, the PT and the left reacted weakly and excruciatingly slowly. Most social movements had been captured by the PT administrations or demobilized as part of the PT's effort to win elections and govern by the rules; the far left remained small and scattered and, since it had always defined itself in opposition to the PT, its organizations found it very difficult to support Dilma Rousseff. Finally, the upper middle class and the media had become implacably hostile to the left since 2013, making it even harder to mobilize the population in support of Dilma's democratic mandate. At certain moments it appeared that the PT might wake up to the imperative of mass resistance. For example, after he was spectacularly questioned as part of the Car Wash investigations, in March 2016 former President Lula said that PT had to stand up and confront the coup in the streets and he would travel around the country doing just that. Instead, he retreated into secretive conversations with fellow politicians and for several weeks was rarely seen in public (he would, much later and under the imminence of jail, travel around Brazil with significant political effect). Dilma Rousseff also refused to take part in demonstrations supporting her own mandate, allegedly to avoid being associated with "radicals" (Dias, 2016), which put her in the oxymoronic position of fighting what she considered to be a coup through purportedly functioning democratic institutions (Leahy, 2016). It soon became apparent that the PT would not fight even against a judicial-parliamentary coup d'état aiming to eject it from power and eventually to dismantle it. Inevitably, Dilma Rousseff was removed from office on August 31, 2016, and in the local elections in October the PT suffered a crushing defeat.

CONCLUSIONS

The coup against President Dilma Rousseff was the culmination of the deepest crisis in Brazil in 50 years. The economy offers a picture of utter desolation. The country's GDP stagnated in 2014, contracted by 3.8 percent in 2015, and slumped by 3.6 percent again in 2016, wrecking the gains achieved under the PT. The fiscal deficit remains uncontrolled into 2018; unemployment has been at double digits since 2016, labor informality is rising rapidly, and several "national champions" have virtually collapsed. The constitution is in shreds. Most political leaders and their parties are implicated in a never-ending array of scandals, Congress is demoralized, the media are trying to run the country, and the judicial system is dangerously overreaching as it, too, tries to become the dominant power in the republic. The institutions of the state are severely disorganized. Policy making under Rousseff's former vice president, Michel Temer, has become erratic—except in what concerns the imposition of successive packages of "reforms" to denationalize industry, disarticulate the state-led oil chain, dismantle Petrobras, and roll back labor protections and pensions.

This legal, political, and economic turmoil suggests that, first, given the PT's determination to pursue the pragmatic path of least resistance, its achievements depended on a favorable global economic environment. Second, when the PT pushed for more heterodox policies it achieved short-term successes, but its efforts were hampered by the country's external dependence and the party's attachment to neoliberalism and reluctance to push for a transformation of the political system. Third, pragmatism disarmed the PT against the unremitting opposition of the media, the neoliberal interests, and the upper middle class. It is apparent, then, that more significant achievements in growth, poverty alleviation and distribution, and the recomposition of the country's economic fabric required more ambitious policy changes supporting a break with neoliberalism, among them the abolition of the neoliberal policy tripod, lower interest rates, the devaluation of the exchange rate, aggressive industrial, financial and capital account policies, the restoration of key production chains, especially in medium and high-technology sectors producing tradables, large investments in infrastructure and the provision of public goods and services, and improvements in the labor market (Barbosa Filho, 2015; Barboza, 2015). In turn, the distribution of income and assets required a comprehensive reform of property and taxation addressing the structural inequalities between rich and poor and between capital and labor.

Instead of recognizing the limits of pragmatism, the PT chose to ignore them and stick to the path of least resistance in the economic, social, and political domains. There was no meaningful attempt to reform the constitution, the state, or the political system or transform the country's economic structure or its pattern of international integration, even under unprecedentedly favorable conditions including mass support, rapid economic growth, distributional improvements, and balance-of-payments stability. The PT governments introduced no new economic rights, and even the party's flagship cash transfer program, the Family Benefit Program, remains vulnerable on legal and political grounds. The PT administrations limited their aspirations to the "reformism lite" permitted by their unwieldy alliances at the top. This worked well while circumstances were favorable. However, the scope for compromise solutions where (almost) everyone won eventually fizzled out.

In examining the paths not taken by the PT, timing is of the essence. Once the PT had committed itself to playing by the rules, it was bound to pursue a nonconfrontational approach both in order to win the 2002 elections and when in power. However, as the party achieved increasing successes and Lula's popularity soared, the political space was created to reform the political system, media ownership, the distribution of assets, and the economic structure. Popular mobilizations around these demands could have cemented the party's mass base of support. Inevitably, they would also have attracted the wrath of powerful interests, but at least in this case the PT would have had the wherewithal and the popular support to fight for what it actually stood for. Instead it chose to back itself into a corner and merely watch as its supporters abandoned the party in its hour of need.

Having failed to recognize the shifting external and domestic environment, the Rousseff administration adopted increasingly erratic policies. Initially, it doubled its bets on neodevelopmentalism. When that seemed to fail, it intervened randomly, offering subsidies, public-private partnerships, and lower taxes and energy prices to sundry capitalist groups, to no avail. Private investment tapered off, public financing deteriorated, inflation crept up, and GDP growth sagged. The PT then turned toward neoliberalism, abandoning its previous achievements and overseeing the demolition of its own political base of support. At every step, and regardless of the mounting wrath of the opposition, the PT remained wedded to a pragmatic and nonconfrontational strategy.

The PT was not destroyed for being too leftist. Instead, its federal administration imploded because of the party's attachment to pragmatism even when it had become counterproductive and because of its attempt to keep triangulating toward a political center that was collapsing into the far right. After the opposition chose the route of intransigence and conflict, and with the media and the judiciary in hot pursuit, no amount of concessions at the top could have kept the PT in power. Yet the party refused to consider the possibility of confrontation. The implementation of neoliberal austerity policies after the 2014 elections, in flagrant contradiction with its campaign promises, destroyed its credibility and left it vulnerable to attack under the pretexts of corruption, conspiracy to subvert the constitution, financial malfeasance, and much else. The PT lost its supporters and did not gain any allies. Pragmatism had run its course.

The growing economic, social, and political morass in which Brazil has been mired since the ouster of President Rousseff casts the achievements of the PT administrations in a comparatively benign light; however, instead of vindicating those achievements this shift in perspective helps to underscore their limitations. Without significant improvements to the productive structure of the economy and the institutionalization of the government's welfare policies, several of the advances due to the PT were reversed by a government bent on increasing all forms of inequality. With the PT having paid no attention to organizing the workers and supporting the country's social movements, the left was poorly equipped to resist. Finally, since the PT was allied with and nurtured in every way the political groups that would, later, lead this attack, it has become clear that the growing strength of the right and the fragility of the social gains in Brazil are part of the legacy of the PT's pragmatic strategy.

The experience of the PT suggests that transformative projects in Brazil are bound to face escalating resistance. Their form, effectiveness, and impact on the alliances supporting the administration will tend to fluctuate depending on the government's response and the global environment, making it difficult to plan reformist strategies in detail. However, it is clear that pragmatism has limited effectiveness and that the cultivation of ever-widening circles of unreliable allies can foster instability and political paralysis. Instead, the class, political, and institutional sources of power must be targeted clearly, openly, and rapidly in order to mobilize the groups with the most to gain, especially the urban poor. The PT failed to do this; the party lost and has been severely damaged. It is unlikely that the PT itself will cease to exist, given its deep roots in Brazilian society, but its role as a force for progressive change has been severely curtailed. Brazil will pay a substantial price for the PT's flawed political strategy for many years to come.

NOTES

1. All macroeconomic and exchange rate data are from www.ipeadata.gov.br.

2. The income of the poor grew two and a half times faster than that of the nonpoor during this period, less than in other Latin American countries with left-of-center governments. Using the international US$2.50/day poverty line, Argentina had a much higher pro-poor growth indicator, 5.5, Bolivia 6.2, and Ecuador 7.3 between 2007 and 2011 (CEDLAS and World Bank, 2016).

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