6

The Macroeconomic Tripod and the Workers' Party Administration

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Introduction

In 1999 liberal economists implemented in Brazil the "macroeconomic tripod" – primary surplus, inflation targeting, and a floating exchange rate – which they equated with responsible and competent policy-making. Yet, in the years in which the tripod was applied (1999–2010), it proved to be perverse. Inflation targeting meant a high level of interest rate, and a floating exchange rate meant an overvalued exchange rate in the long term, coupled with high current account deficits. In other words, the tripod meant exchange rate irresponsibility – the Brazilian economy continued to be trapped by high interest rates and an overvalued currency.

Instead of a tripod, new developmentalism argues for the equilibrium of the five *right* macroeconomic prices: a satisfactory rate of profit that motivates business enterprises to invest; an exchange rate that floats around the industrial equilibrium, and so makes competitive the business enterprises that utilize the best technology available in the world; a low level of interest rate around which monetary policy is to be conducted; a wage rate that grows along with productivity (and therefore is consistent with a satisfactory rate of profit); and low inflation. Put differently, new developmentalism argues for fiscal and exchange rate responsibility.

Dilma Rousseff was not acquainted with new developmentalism when she assumed office. She was well-versed in classical developmentalism, but when she assumed the presidency in January 2011, her aim was to reform the macroeconomic regime and rescue it from the trap of high interest rates and an overvalued currency into which it had fallen in 1994. Four years later, there is a widespread realization that she has failed. The profit rate remains unsatisfactory, the exchange rate overvalued, the real interest rate too high, the real wage rate and other revenues artificially high due to the overvaluation, the inflation rate up from around 5 percent to around 9 percent per year, and the growth rate dismal. Although in terms of growth the performance of the Luiz Inácio "Lula" da Silva administration was apparently superior to that of the previous Fernando Henrique Cardoso administration, as well as that of the Dilma administration that would follow, in the 20 years that these three presidents governed, the effective macroeconomic tripod remained essentially in force. The left-wing administrations proved effective in promoting distribution, but not growth. They were not able to meet the classical challenge that social-democratic political parties face in government: how to manage capitalism more competently than capitalists.

This chapter will offer an explanation for these poor results that differs from those offered by the government – which blames the world economic crisis – or by the liberal orthodoxy – which stresses fiscal irresponsibility (as shown by the rising budget deficit) and exchange rate irresponsibility (translated into the rising current account deficit). But, first two related macroeconomic subjects – the macroeconomic tripod and the impossible trinity – will be discussed from a new-developmental perspective.

The tripod and the triangle of impossibility

The macroeconomic tripod, persistently celebrated by the liberal orthodoxy, is based on Mundell's impossible trinity and on the "new macroeconomic consensus" that became dominant in conventional economics in the 1990s within the framework of the neoclassical and neoliberal hegemony. Curiously enough, this "consensus" derived from the failure of monetarist policy to control inflation using monetary targets, and from the failure of central banks to replace these targets with an informal target to be achieved pragmatically. This policy also assumed a pragmatic reaction equation (formalized by John Taylor), which relates the target to ongoing inflation and, tied to level of employment, with the interest rate. But soon central bankers realized that, besides the interest rate, they could and would use an appreciating exchange rate to achieve their target – which might involve a major distortion in the economy. They were also aware that, for their price stabilization policy to succeed, they should explain to economic agents that the central bank would be firm in its implementation, so that agents' expectations would coincide with the target. Therefore, there was an inflation target, an explicit interest rate policy to achieve it, and an implicit, though never avowed, exchange rate policy, because conventional economics presupposes that the only legitimate instrument to be used by central banks is the interest rate, and a satisfactory price of foreign currency defined by the market. This monetary policy, along with agreement on the need for fiscal responsibility, amounted in the rich countries to a new macroeconomic policy regime, which was quite reasonable except for the use of the exchange rate as a weapon against inflation and the lack of concern about the associated current account deficits and overvalued currency.

Faced with this pragmatic shift on the part of the central banks, neoclassical economists decided to align this macroeconomic policy with their assumptions concerning general equilibrium and rational expectations, and the corresponding theoretical model was dubbed the "macroeconomic consensus." This macroeconomic policy regime guarantees price stability, but it is essentially irresponsible in exchange rate terms, which is fatal when it is applied in developing countries since these become heavily indebted in foreign currency and are subject to cyclical currency or balance-of-payment crises. Here I criticize not the consensus itself, but the way it was understood and applied in Brazil.

In 1999, confronted with a serious balance-of-payment crisis, which again confirmed the tendency to the cyclic and chronic overvaluation of the exchange rate, the Fernando Henrique Cardoso administration, in accordance with the prescriptions of the International Monetary Fund, adopted a floating exchange rate, an inflation targeting policy and a primary surplus target to stabilize the public debt/GDP ratio. The administration named this new matrix the "macroeconomic tripod."

I would have nothing against the macroeconomic tripod if each of its three legs corresponded to what the orthodoxy presumes it does: that the "floating exchange rate" corresponds to an exchange rate that would gently float around the competitive equilibrium; that the "inflation target" implies a low inflation rate achieved through the interest rate policy and macroprudential regulation, and not through the overuse of the exchange rate anchor policy; and that the "primary surplus" means a surplus that keeps the public debt under control in the long term, not in the short term, when sometimes an expansionary countercyclical fiscal policy is required. But, in practice, since the tripod was adopted, only the primary surplus has achieved its implicit goal of fiscal responsibility; the inflation targeting policy has led to very high real interest rates and the overuse of the appreciation of the exchange rate, and the floating exchange rate policy has resulted in an overvalued exchange rate and high current account deficits that have caused deindustrialization and rendered the country vulnerable to a balance-of-payment crisis.

In reality, the liberal policy assumed the tripod is able to maintain price stability, but at the cost of growth and with high financial instability, and Brazil is always under the threat of a new financial crisis. In response to this "perverse tripod," which continued in the first two years of Lula da Silva's administration, in 2007 I published a book on the Brazilian economy, *Macroeconomia da estagnação* (*Macroeconomics of Stagnation*), in which I claim that the Brazilian economy was caught in a macroeconomic trap of high real interest rates and an overvalued currency. Yet, at that moment, Lula's administration achieved high growth rates, apparently contradicting what I had stated in the book. Several competent economists even said that "Brazil has resumed growth" – growth that was lost in 1980, with the financial crisis that was a foreign debt crisis. Unhappily, they were wrong. The high growth was the consequence of a commodity boom triggered by the incredible rates of growth that China was achieving. As soon as the commodity bubble burst, the Brazilian economy returned to the low growth regime that still prevails. The new-developmental theory that I was formulating while writing the book predicted that the economy would not resume growth until it had escaped from the trap of high interest rates and an overvalued exchange rate – and the rhetoric of the tripod was not contributing to this at all.

The three components of the macroeconomic tripod (primary surplus, floating exchange rate and inflation target) are intended essentially to guarantee a high real interest rate and an overvalued currency. This is demanded by the neoliberal political coalition formed by rentier capitalists and financiers, whose liberal economists ignore "the Dutch disease", preach the policy of growth *cum* foreign indebtedness ("savings"), and defend the use of the exchange rate as a nominal anchor against inflation. This means giving absolute priority to inflation control (the best way to guarantee a high real interest rate) and rejecting any exchange rate policy – the sure way to make it overvalued in the long term. When this policy is not enough, liberal orthodoxy resorts to the exchange rate anchor policy.

Brazil should achieve a primary surplus; more precisely, it should be fiscally responsible. Yet it is unacceptable for a developing country to waive an exchange rate policy and let it float *freely* in the market, particularly after learning from new developmentalism that in developing countries there is a tendency to the cyclic and chronic overvaluation of the exchange rate. And, it is equally unacceptable that the inflation targeting policy should impair the other two goals of good macroeconomic policy: growth and financial stability. I have no objection to the adoption of the floating exchange rate regime or to the framing of an inflation target and a primary surplus target, provided that the floating exchange rate is carefully managed to neutralize the tendency to the cyclic and chronic overvaluation of the exchange rate, that the inflation target is not used to justify a high interest rate, and that the primary surplus should vary according to the economic cycle – that is, it should be countercyclical.

This tripod is usually justified by "Mundell's trilema," according to which it is impossible to successfully pursue at the same time a monetary or interest rate policy, a floating exchange rate or free movement of capital, and an exchange rate policy or fixed exchange rate. The trilema, also called the "impossible trinity," is a syllogism that is correct logically, but not so correct in practical terms, and definitely wrong in the way it is used. It proceeds from two assumptions: that monetary policy and a fully floating regime are required, and that exchange rate policy must be excluded. But why should the exchange rate be fully floating? Why not have a managed float regime? Why not use capital controls? In other words, instead of assuming that the exchange rate should be fully floating (which is just a means, not an end in itself), why not assume that the exchange rate should be competitive and adopt this as a core objective? In fact, when full capital mobility is presupposed, the possibility of an exchange rate policy is precluded. However, there is no reason to consider full capital mobility as part of the natural order of things.

All countries must keep their exchange rates reasonably stable, and developing countries must neutralize the tendency to the cyclic and have chronic overvaluation of the exchange rate. An exchange rate policy is essential for this. This policy is not envisaged even by Keynesian macroeconomics, because it is presumed that any misalignments of the exchange rate are only short term. This is only relatively true for rich countries; it is definitely not true for developing countries, where the exchange rate is often overvalued in the long term due to a nonneutralized Dutch disease and two policies usually adopted with the blessing of the West: the policy of the growth *cum* foreign indebtedness ("savings") and the exchange rate anchor to control inflation. According to new developmentalism, an exchange rate policy is always essential for developing countries, and is not confined to the role prescribed for it in textbooks. Besides the policies of using the interest rate to attract capital and the purchase or sale of reserves by the central bank, a structural policy is required (the neutralization of the Dutch disease by means of an export tax equivalent to the severity of the disease) and a "no" policy: no growth *cum* foreign indebtedness ("savings") and no exchange rate anchor to control inflation. Particularly in countries that have the Dutch disease, the outcome of such new-developmental policies will be a current account surplus rather than a current account deficit, as neoclassical, Keynesian, and classical developmental theories assume. Therefore, the intuitive maxim that "capital-rich countries are supposed to transfer their capital to capital-poor countries" will prove to be wrong.

The Lula administration

The Lula administration (2002–2010) left the conservative elites confused; the radical left disappointed; the reformist and moderately nationalist left satisfied because it achieved a reduction of inequality and revived the ideas of the nation and the developmental state; and the "common people" – the great mass of the poor who assured Lula's re-election in 2006 – enchanted. Lula ended his administration with an unprecedented degree of popularity. During his first two years, he promoted the necessary fiscal and monetary adjustments, seeking to win the confidence of the bourgeoisie and of the high techno-bureaucracy. Advised by an opportunist Minister of Finance and a Central Bank chairman committed to the international financial system who subdued the high rate of inflation left by his predecessor through the use of the exchange rate anchor, Lula did almost everything the liberals wanted. The government raised the interest rate and deepened the fiscal adjustment, although the real interest rate was already high and the fiscal adjustment had been underway since 1999. The recession of 2003 was a reflection of that policy. From his fourth year on, however, when he had as ministers Dilma Rousseff as Chief of Staff (*Casa Civil*), Guido Mantega in the Ministry of Finance, and Luciano Coutinho in the presidency of BNDES (the Brazilian Development Bank), he was able to start a development strategy characterized as "social-developmental" – a strategy quite different from new developmentalism because it is based on exchange rate appreciation. At the same time, the rates of investment and growth accelerated, thanks on the one hand to the increase in prices of commodities exported by Brazil, the improved terms of trade and the increase in value (not the quantum) of exports, and on the other hand to a distributive policy based on a big increase in the minimum wage (52 percent in real terms) and on a new cash transfer, *Bolsa Família*. At the completion of the eight years of Lula's government, the GDP growth rate had doubled compared with that under the previous government, but it was not so high as to amount to such a high rate of growth to justify references in *The Economist* of the "great growth in Brazil." In fact, this sweet accolade was a "reward" for the good treatment that the international establishment and its corporations had received and for the continuous appreciation of the *real* during the eight years, which served both international financial speculators and exporters to the country.

A moment of national euphoria during the Lula administration was the discovery of large oil reserves off-shore in the pre-salt. In Bresser Pereira, 2005, I wrote a short article in on the Dutch disease and deindustrialization. This article, followed by a Bresser Pereira, 2008 paper, started a significant debate on the deindustrialization caused by the Dutch disease. Nevertheless, the government denied that Brazil was suffering from the Dutch disease, despite evidence to the contrary; but a little later, with the discovery of large oil reserves in the pre-salt, it acknowledged that the oil exports would give rise to the disease and decided to change the regulatory system of the oil industry. The regulatory scheme was adopted for pre-salt, on the grounds that this would more effectively neutralize the Dutch disease. But, the new regulatory framework didn't include the essential institution that permanently depreciates the national currency and which would make business enterprises using world-leading, state-of-the art technology competitive: a tax on the export of the commodities generating the disease. What was done was the creation of a sovereign fund to receive the proceeds derived from the pre-salt exploration, and what happened politically was a lively debate about how to distribute these resources. As for the neutralization of the Dutch disease, it was believed, mistakenly, that the sovereign fund would perform this task, and not a word was said about the necessary export tax.

The Lula government's positive achievement lay not in economic development but in the distribution of income. His administration was strongly social, and hesitantly and incompetently developmental. Its main distributive policy was the large increase in the real minimum wage, but two additional policies contributed to the reduction of inequality: an effective cash transfer system – the *Bolsa Família* – and an increase in the share of GDP devoted to social spending. It is true that this increase had been occurring since 1985, under the Democratic-Popular Pact of the *"Diretas Já,"* (Direct [elections] Now) the political coalition that presided over the 1985 transition to democracy. In 1987, the failure of the Cruzado Plan destroyed this political pact, but the agreed increase in social spending to reduce economic inequality in the country survived and was executed by democratic governments, with the exception of that of Fernando Collor de Mello. Social spending doubled in percentage terms, from about 13.3 percent of GDP in 1985 to 22.8 percent in 2009. The doubling of the growth rate, along with the three distributive policies, contributed to the reduction of economic inequality and raised the standard of living. Millions of Brazilians rose into class C (a marketing and political pollsters' concept). The workers were rising out of their subproletarian condition and starting to participate in the mass consumer market. As noted by Jessé Souza (2010, p. 45), who studied Brazilian workers, refers to those in class C as in reality struggling as"middle class", hides the "important contradictions and ambivalences in the life of Brazilian workers and conveys the notion of a financial capitalism that is only 'good' and without defects." His criticism is valid, but the number of people who moved from classes E and D to class C as verified by Marcelo Neri (2011, p. 27) is nonetheless significant. Between 1995 and 2003 the share of these classes in the total population remained stable (around 36 percent in class C and 54 percent in classes D and E); but from 2003 the trend changed completely, and in 2011 the proportions were reversed: class C already corresponded to 55 percent of the population, while classes D and E had dropped to 33 percent. There is no doubt that under the Lula administration Brazil became a mass consumer society. The mass consumption that economists associated with the Workers' Party under the leadership of Ricardo Bielschowsky, and proposed in his 2002 electoral manifesto, was realized, but at the expense of a highly overvalued currency, which was in the plan.

The figures for the reduction of inequality and the improvement in working class living standards since the democratic transition, in particular under Lula, are impressive. Inequality was already decreasing due to the increase in social spending in education, health, and focused social welfare programs. But under the Lula government there was a clear acceleration as a result of the increase in the real minimum wage and in social assistance expenditures. According to the National Sample Survey of Households, the percentage of the Brazilian population living below the poverty line (around 35 million people in the early years of the decade), fell to 21 percent in 2009: 28 million people were lifted out of poverty. Between 2003 and 2011, per capita household incomes increased by 40.7 percent, 13.3 points higher than the increase in GDP per capita (27.7 percent). The Gini coefficient, which was around 0.60 in the second half of the 1990s, and had fallen to 0.58 in 2003, was reduced to 0.54 by 2009.

The share of wages in GDP had risen with the Real Plan, but fell with the devaluations of 1999 and 2002 that accompanied the financial crises of those years, and increased again after 2004, confirming that the Workers' Party governments were oriented towards consumption. This model fostered broad social inclusion, but proved unsustainable, as was well-demonstrated by the fall in the investment rate and the low growth rates under the Dilma administration. Indeed, this social-developmental growth model has been shown to be short of breath, because, given the enormous appreciation of the *real*, the large domestic market that materialized under the Lula administration was captured by imports under the government of Dilma, and deindustrialization deepened. A good growth model should be sustained by neither exports nor consumption, but must keep these two variables balanced and the exchange rate competitive.

The social developmentalism of the Lula government shunned the policy prescriptions associated with new developmentalism. The exchange rate appreciation during his eight years was enormous. As a result of the 2008 financial crisis, the exchange rate fell from R$5 to the dollar in December 2002 to R$1.90 to the dollar in December 2010. Such huge valorization, coupled with the increase in the real minimum wage and the rise of other wages in the labor market, explains the growth of real wages and all other incomes in real terms during the eight years of Lula's presidency, his enormous popularity at the end of his two terms in office, and the growth of class C. But it also explains why under the Dilma government the growth rate has been so low.

The causes of the appreciation were (1) the lack of neutralization of the Dutch disease, which was worsening (a result of rising commodity prices); (2) the mistaken policy of growth with foreign savings; (3) the policy of fighting inflation with an exchange rate anchor; and (4) the high interest rate policy practiced by the Central Bank, which, besides controlling inflation, attracts capital and appreciates the local currency. In short, this appreciation was due to exchange rate populism – by the high preference for immediate consumption that characterizes the Brazilian economy since 1994. The appreciation of the *real* rendered the export of manufactured goods economically unfeasible, but this was compensated by the growth of the domestic market. Thus, we were in the "best of all possible worlds": inflation was brought under control, workers' wages increased, economic inequality decreased, the interests of the rentiers and financiers had an only slightly lower priority than under the previous government, the profits of commercial enterprises geared to the domestic market were satisfactory, and the profits of industrial enterprises were sustained thanks to the domestic market. But given the overvalued exchange rate, the expansion of the internal market for the benefit of national companies proved temporary. The disastrous effects of this huge appreciation arrived under the Dilma government.

All this increase in the domestic market was eventually captured by imports, because importers of manufactured goods usually need three years to organize their expansion.

It is clear that this was an unsustainable macroeconomic equation. In fact, it was the classical equation of exchange rate populism that both liberal and developmental governments frequently adopt. Macroeconomic policy seemed responsible because the budget deficit was kept under control, but in fact it was irresponsible because it was based on exchange rate appreciation and current account deficits (as recommended by the irresponsible liberal orthodoxy, which calls them "foreign savings"). In 2005, the increase in commodity prices and the resulting increase in exports converted the high current account deficits of the previous government into surpluses; but soon after, in 2007, as the *real* continued to appreciate, Brazil relapsed into deficit.

The Dilma administration

President Dilma Rousseff took office in January 2011, hoping that her government would be a continuation of the Lula administration. Yet, in Lula's eight years in office, the annual rate of growth of GDP was 4.5 percent and that of investment 7.1 percent, against, respectively, 1.6 percent and 1.9 percent under the Dilma administration. There are several explanations for this poor performance, but in my opinion, the main explanation, besides the fall of the commodity prices, is that while Lula inherited from Fernando Henrique Cardoso an exchange rate of R$5.00 to the dollar, Dilma inherited an exchange rate of R$1.90 to the dollar. Lula enjoyed a competitive exchange rate for about half of his administration, during which manufacturing industry was able to export (and, in his second administration, the manufacturing industry benefited from an increased domestic market). But Dilma, despite having achieved some depreciation of the *real*, always had to coexist with an overvalued *real*. Thus, while deindustrialization was relatively minor under the Lula administration, it accelerated under the Dilma administration due to the huge competitive disadvantage that the manufacturing industry faced.

Whether or not Dilma was aware of the difficulties she would face, the president was determined to escape the trap of high interest rates and an overvalued exchange rate. In August 2011, the Central Bank, under the chairmanship of Alexandre Tombini, surprised the financial market and reduced the interest rate, arguing that the severe crisis of the euro was slowing the Brazilian economy. In nominal terms, the interest rate fell from 12.25 percent to 7.25 percent, reducing the real interest rate to only 2 percent. The liberal orthodoxy immediately protested, predicting the return of inflation, but soon it became obvious that inflation was under control and that the Central Bank was moving in the correct direction. To guarantee the new rate, the government had the courage to abolish the real interest floor for savings accounts, which was an old hindrance to new lows in interest rates. However, full employment continued in an economy where the supply of labor had been limited since the previous decade. Together with the increase in the minimum wage, this resulted in a continuous increase in the wage rate above the productivity rate, which was expressed in a growth of the unit labor cost index (wages divided by productivity) that exceeded the increase in Brazil's competitor countries. Consequently, the comparative index of unit labor costs, which is the key determinant of the industrial equilibrium (the value of the exchange rate necessary for competent companies suffering from Dutch disease, to be competitive), rose, thus making the Dutch disease potentially more serious, as the gap between the industrial and the current equilibrium fell. Yet, in mid-2011, the fall in the interest rate caused a depreciation of the exchange rate, which was a genuine improvement. After one year, the *real* had depreciated by around 20 percent, reaching, in 2014 prices, R$2.40 per dollar, but my estimation of the industrial or competitive equilibrium was R$3.10 per dollar. Thus, the depreciation was insufficient to make the business enterprises competitive and persuade them to invest. It was, however, sufficient to cause a rise of the inflation, because the government didn't accompany the depreciation with a new and temporary increase in the interest rate.

The fall in the interest rate and the depreciation of the *real* led the government to believe that the "macroeconomic matrix" had changed – in other words, that Brazil had escaped the high interest–overvalued currency trap, and was set to grow fast. But the *real* remained overvalued, and the current account deficit continued to grow (from 2.1 percent of GDP in 2011 to 4.4 percent in 2014). The assumption was that the depreciation of the *real* would have a depressing effect on wages and would cause an increase in the expected rate of profit or the competitiveness of enterprises; but, besides the fact that the 20 percent depreciation was insufficient to make manufacturing industry competitive, real wages continued to increase above the increase of productivity, what impaired additionally their competitiveness. Thus, the expected rate of profit in noncommodity tradable industries remained unsatisfactory, investment in manufacturing industry fell, and the rate of growth in 2013 was just 1 percent, while inflation continued to increase, although slowly. Unable to finance all the required investments in infrastructure, the government opened the way for concessions to the private sector, but as it specified a low profit rate, the private sector shunned the concession auctions, and the investments didn't materialize.

In 2013, the economic conditions faced for Brazil deteriorated due to the fall in the prices of the main commodities exported by Brazil, mainly soy beans and iron ore, and the exchange rate showed a tendency to depreciate. This was, in principle, good, because the loss of the competitivity of the manufacturing industry would be checked, but now the government had no more interest in the depreciation of the *real*, because the re-election of the president would depend on keeping the inflation rate under control. The Central Bank then embarked on a program of selling reserves (in the futures market) to avoid depreciation, which it has continued up to the time of this writing (March 2015). This policy was a success to the end of 2014. In the first months of 2015, the *real* depreciated strongly, achieving R$3.25 to the dollar in March.

The year 2013 was a turning point in political terms. It was the time of the judgment of Workers' Party politicians associated with the "*Mensalão*," corruption scandal, of the mass demonstrations in June against politicians in general, and of the collapse of the developmental class coalition that Lula had tried to build by associating the working class with manufacturing industry. The poor performance of the economy, a small rise of inflation, and, with the June demonstrations, a great fall in the popularity of the president (which had been high until then), contributed to the collapse of the developmental political pact. In that year, the business class and the bourgeoisie as a whole (the productive, the rentier, and the financial elites) and foreign interests teamed up again – against the government in place. The poor economic results and the government's tendency to favor the poor and the working class had become intolerable for them. Dilma realized that she was facing a crisis of confidence and reacted by increasing the interest rate, but it was too late.

Since the new macroeconomic matrix had not worked and the manufacturing industry was in deep crisis, Dilma implemented an ambitious and expensive industrial policy defined by tax cuts for certain industries. But industrial policy is no substitute for an overvalued currency; it only works when the basic macroeconomic prices are right, and they had been wrong for a long time – since the 1980s. Thus, this industrial policy was disastrous and was the main cause of decontrol of public finances in 2013 and 2014.

To avoid the depreciation of the *real*, the Central Bank had to buy dollars throughout 2013 and 2014, while the exchange rate remained highly overvalued, and the manufacturing industry was in full crisis. As a consequence of all this and of the fall in commodity prices, GDP growth was 0.1 percent in 2014, which meant a fall in income per capita, while public expenditures increased, transforming the 2 percent primary surplus into a 1 percent deficit, and the deficit of the current account reached 3.4 percent of GDP in 2013 and 4.4 percent in 2014.

At the end of 2014 Dilma Rousseff was re-elected. The general behavior of the voters was similar to that observed in the 2006 and 2010 presidential elections. The poor voted for the Workers' Party candidate, the rich for the opposition. But, in the previous elections the rich were united, and, principally, they were not so radically opposed to the left-wing administration because economic conditions were much better and Lula was an extremely able politician, while Dilma is reluctant to make the necessary compromises. In 2015, her second mandate began in extremely difficult conditions. A new financial scandal, this time concerning Petrobrás, demonstrated that corruption involving businessmen and politicians remains a major problem in Brazil; but, as a trade-off, the state institutions – the federal police, the public prosecutor's office and the judiciary – proved their capacity to fight corruption. Full employment came to an end, but the interest rate remained high and the president was constrained to embark on an austerity program. In principle, such a policy would not make sense because the policy is procyclical, but two arguments favored the adjustment policy: first, since the exchange rate depreciated strongly, the fiscal adjustment was required to keep inflation under control; second, since there is in Brazil a strong belief that the primary surplus must be kept positive and the public debt under control, the fiscal adjustment was a condition for the recovery of the confidence of the business class and of international markets.

Conclusion

In brief, what happened to the macroeconomic tripod defended by the liberal orthodoxy, which was applied under the liberal Cardoso administration, and from which the developmental Lula and Dilma administrations tried to escape? We have already seen that in the hands of the liberals the tripod proved perverse, because the "floating exchange rate" allowed an overvalued *real* or exchange rate populism, and inflation targeting was a way of legitimizing high interest rates. Only the primary surplus made sense in practical terms, because it was effective in keeping public debt under control under the Cardoso administration. Over the three governments of the Workers' Party, the situation did not change much. In the first two years of the Dilma administration, there was an attempt to change the macroeconomic matrix, but it failed. The exchange rate remained highly overvalued and the interest rate did not fall except in 2012. As for the primary surplus, the Workers' Party administration displayed fiscal responsibility for the first ten years. It lost control of the budget deficit in 2013 and 2014 when the president realized that the change in the macroeconomic matrix had not worked, and, in despair, decided to adopt a very expensive and, eventually, ineffective industrial policy.

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