
Navigating Economic and Political Challenges: Lula's Third Term in a Changing World

*Alessandro Donadio Miebach*¹

Federal University of Rio Grande do Sul (Brazil)

*Henrique Morrone*²

Federal University of Rio Grande do Sul (Brazil)

*Adalmir Marquetti*³

Pontifical Catholic University of Rio Grande do Sul (Brazil)

*Samuel Volkweis Leite*⁴

Federal University of Rio Grande do Sul (Brazil)

Recibido: 20-04-2024

Aceptado: 03-06-2024

¹ aledonadio@gmail.com

² hmorrone@hotmail.com

³ aam@pucrs.br

⁴ samuelvolkweisleite@gmail.com

Navegando los desafíos económicos y políticos: el tercer mandato de Lula en un mundo cambiante

Resumen. Este artículo analiza las perspectivas económicas y los desafíos que puede enfrentar el tercer mandato de Lula, considerando perspectivas tanto de corto como de largo plazo. El estudio examina los factores que influyen en la tasa de beneficio entre 2002 y 2023 y los cambios globales resultantes de la rivalidad dominante entre Estados Unidos y China. En el corto plazo, tal vez sea posible impulsar la demanda aumentando la participación salarial y mejorando el ingreso promedio real de la población menos próspera, a través de un salario mínimo real más alto y transferencias sociales. Este enfoque podría expandir la demanda de los hogares y aumentar la utilización de la capacidad. El crecimiento económico en 2023 superó las expectativas, lo que refleja el éxito de estas políticas. Nuestros hallazgos enfatizan la necesidad de promover la acumulación de capital y el crecimiento sostenible a través de inversiones estratégicas en empresas públicas y estatales. La capacidad del gobierno para revitalizar el crecimiento económico depende de una reforma radical de las instituciones, alejándose del neoliberalismo y adoptando un marco desarrollista dentro de un mundo multipolar. Sin embargo, el gobierno se ve limitado por limitaciones políticas a la hora de implementar esta estrategia, que un cambio en el orden internacional podría abordar.

Palabras clave: Tasa de Beneficio; Acumulación de Capital; Economía Brasileña; Crecimiento Económico.

Clasificación JEL: N16; N46; O54

Navigating Economic and Political Challenges: Lula's Third Term in a Changing World

Abstract. This article analyses the economic prospects and challenges that Lula's third term may face, considering both short and long-term perspectives. The study examines the factors influencing the profit rate between 2002 and 2023 and the global changes resulting from the dominant rivalry between the United States and China. In the short term, it may be possible to boost demand by increasing the wage share and improving the real average income of the less affluent population through a higher real minimum wage and social transfers. This approach could expand household demand and increase capacity utilization. The economic growth in 2023 exceeded expectations, reflecting the success of these policies. Our findings emphasize the need to promote capital accumulation and sustainable growth through strategic public and state-owned enterprise investments. The government's ability to revitalize economic growth depends on a radical reform of institutions, moving away from neoliberalism and embracing a developmentalist framework within a multipolar world. However, the government is constrained by political limitations in implementing this strategy, which a change in the international order could address.

Keywords: Profit rate; Capital accumulation; Brazilian economy; Economic growth Productivity (TFP) and Commodities.

JEL codes: N16; N46; O54

1. Introduction

One key question concerns how to achieve and sustain economic growth, a challenge for underdeveloped countries, which usually display low and volatile GDP growth rates, particularly in Latin America and Africa (Marquetti, Miebach, and Morrone, 2024). Economic growth is central to alleviating class conflict and poverty. In this context, Brazil is a case worth noticing. The country experienced robust growth rates during the Golden Age following World War II. A developmentalist model through industrialization by import substitution marked the period. However, the model faced a crisis in the 1970s due to falling profit rates and changing external conditions, leading to declining growth rates and a transition to neoliberalism in the 1980s and early 1990s. Adopting the neoliberal model resumed in the Washington Consensus across Latin America, particularly in Brazil, resulting in overall weak economic performance.

Neoliberalism's limits in improving the living conditions of most Brazilian people played a major role in the election of the Worker's Party (Partido dos Trabalhadores, PT) in 2002 under the leadership of Luis Inácio Lula da Silva. In power, the new government combined elements of developmentalism and neoliberalism. In the context of rising commodity prices, there were higher rates of growth than in the previous period and reduced inequalities. The increase in GDP growth rates generated great expectations about Brazil's trajectory. However, external conditions shifted following the 2007 financial crisis, limiting the capacity to expand real wages and profit rates simultaneously. This led to a declining profit rate in the early 2010s, as the wage share increased due to expanding internal demand.

In 2015, at the onset of the Worker's Party's fourth term, Brazil plunged into a simultaneous economic and political crisis. Under Dilma Rousseff's leadership, the government changed its course, adopting an austerity policy. This, coupled with mounting political turbulence, culminated in the government's downfall through a controversial impeachment process, better described as a 'soft coup.'

Vice President Michel Temer, who played a significant role in the soft coup, assumed power and implemented a late version of neoliberalism. He introduced reforms not part of the electoral agenda, including a constitutional amendment imposing a ceiling on public spending and reduced labour rights. The neoliberal economic policy, as usual, resulted in a fall in the wage share, a recovery in the profit rate, and low growth rates. Albeit supported by the Brazilian oligarchy, Temer did not achieve popular support due to the high unemployment rate and a succession of corruption scandals, which further demoralized the political system.

These developments paved the way for the rise of the far-right, culminating in the election of Jair Bolsonaro. Bolsonaro's economic policy continued that of his predecessor, maintaining a falling wage share trend. The COVID-19 pandemic and its aftermath exacerbated the regressive impacts of Bolsonaro's policies. The resulting decline in living standards created conditions that facilitated the resurgence of Lula and the Workers' Party in the political arena, ultimately leading them back to power. Lula's central challenges in office include preventing a far-right return to power, reigniting economic growth, and reducing poverty. However, as observed during his first year in power, these are daunting tasks to be accomplished in an environment where neoliberalism remains hegemonic.

This paper investigates the dynamics of the profit rate and its determinants from 2002 to 2023. Furthermore, this analysis delves into the global transformations driven by the hegemonic rivalry between the United States and China. In the short term, there is potential

to stimulate demand by increasing the wage share and improving the real average income of lower-income populations through a higher real minimum wage and expanded social transfers. This strategy is anticipated to bolster household demand and boost capacity utilization levels. The economic growth observed in 2023, surpassing expectations, can be partly attributed to these policies. However, policies focused solely on demand stimulation and reliant on capacity expansion are transient, lacking substantial long-term economic impact.

One of the paper's key contributions emphasizes the imperative of fostering capital accumulation and expanding economic growth through strategic public and state-owned enterprise investments. The government's success in revitalizing economic growth hinges on the transformative overhaul of institutions, a departure from neoliberalism by adopting a developmentalist framework within a multipolar world. The observed increase in the profit rate could enable the private sector to expand its productive investment.

This article is organized as follows. Section 2 presents the trajectory of the profit rate and its main components from a Marxian approach. Section 3 provides an overview of the international and the Brazilian economies in the Worker's Party leadership period. Section 4 discusses the period of late neoliberalism and the far-right in Brazil. Section 5 focuses on Lula's first year in power. Section 6 discusses the short-term and long-term challenges facing the Workers' Party government and concludes.

2. The Profit Rate and its components in Brazil, 2002-2023

The profit rate is a pivotal determinant of expected profitability, playing a central role in explaining business cycles. As the profit rate rises, so do profitability expectations, igniting increased investments, higher employment rates, and elevated output growth. Conversely, a decline in profit rates sets off a chain reaction: profitability expectations diminish, investments dwindle, and both output growth and capital accumulation take a hit. This downward accumulation rate spiral inevitably alters the economy's long-term trajectory. In the face of declining profit rates, government interventions to stimulate growth may offer short-term respite by fostering investment and accumulation.

However, sustaining such performance over the medium and long term remains a daunting challenge, as highlighted by Weisskopf (1979). He outlined three primary factors that steer the trajectory of the profit rate and serve as the primary mechanisms driving capitalist economic crises. Firstly, the potential productivity of capital dwindles as the organic composition of capital increases—a process typically associated with mechanization, capital accumulation, and technical progress. This decline in potential capital productivity may also occur if the growth rates of the GDP deflator and terms of trade lag the growth in capital goods prices, both scenarios ultimately resulting in a fall in the profit rate. Secondly, a decline in capacity utilization stemming from a drop in aggregate demand triggers diminishing profits. Lastly, a decrease in the profit share, indicative of capitalists receiving relatively lower income shares than workers, further compounds the situation. This decline in the profit share stems from the bargaining power of workers, who, under favourable economic and political conditions, can negotiate higher wages, outstripping the rate of productivity growth and squeezing profits. Regardless of its origins, a decline in the profit rate spells trouble: investment and capital accumulation rates plummet, and economic growth rates decline.

The profit rate, defined as the ratio of profits to the capital invested in production, can be decomposed, following Weisskopf (1979), into three components: the profit share (π),

capacity utilization (u), and potential capital productivity (ρ). This breakdown facilitates a deeper understanding of the mechanisms at play.

$$r=Z/K=Z/X * X^{\wedge}P / K * X / X^{\wedge}P =\pi u \rho \tag{1}$$

Where Z is net profit, K is net capital stock, X is net output, and XP is the net potential output. For information on the data for the Brazilian economy, see Marquetti et al. (2023) and Miebach and Marquetti (2023).

Fluctuations in the profit rate have political and economic consequences in capitalist societies. Over the medium to long term, changes in the organic composition of capital influence potential capital productivity and are one of the drivers of institutional evolution within these economies. The interaction between functional income distribution and capacity utilization, as elucidated by Goodwin (1967), carries significant political consequences. The level of capacity utilization directly impacts workers' bargaining power, which in turn impacts the profit share and profit rate. In the case of a profit squeeze, capitalists may respond politically, potentially destabilizing the current government. Conversely, workers facing high unemployment and lower wages may express their discontent through electoral means, often by voting against the incumbent government. Thus, economic conditions play a crucial role in shaping the political behaviour of both workers and capitalists.

Table 1 provides insights into the GDP growth rate, profit rate, and its components, organized by presidential terms between 2002 and 2023. The profit rate exhibited an annual growth rate of 0.71% between 2000 and 2023, driven by contributions from the profit share (0.09% per year) and capital productivity (0.53% per year). This trend is closely linked to the process of deindustrialization witnessed in the Brazilian economy during those decades. Deindustrialization, characterized by a declining share of sectors with lower capital productivity alongside a rise in sectors with higher capital productivity, contradicts the trend Marx described in his analysis of the falling profit rate. Specifically, the manufacturing sector's share of value-added at current prices fell from 15.27% in 2000 to 12.09% in 2019, before the Covid-19 pandemic. However, the manufacturing sector saw a resurgence post-pandemic, mainly due to the global supply chain crisis. By 2023, it rebounded to 13.33%, indicating a modest recovery in the manufacturing share.

Table 1. The net profit rate decomposition and GDP growth rate by presidential term, Brazil, 2000-2023, %

Period	r	π	u	ρ	GDP
2000-2021	0.60	0.09	-0.01	0.53	2.19
2002-2006 - Lula 1	1.67	-0.41	0.75	1.34	3.50
2006-2010 - Lula 2	0.59	-0.94	0.31	1.22	4.60
2010-2014 - Dilma 1	-2.73	-2.29	-0.97	0.52	2.34
2014-2016 - Dilma 2	-6.68	-3.84	-4.16	1.26	-3.41
2016-2018 -Temer	5.27	1.96	1.36	1.86	1.55
2018-2022 - Bolsonaro	4.62	5.59	1.72	-2.60	1.39
2022-2023 - Lula 3	6.81	-0.49	-0.58	7.96	2.91

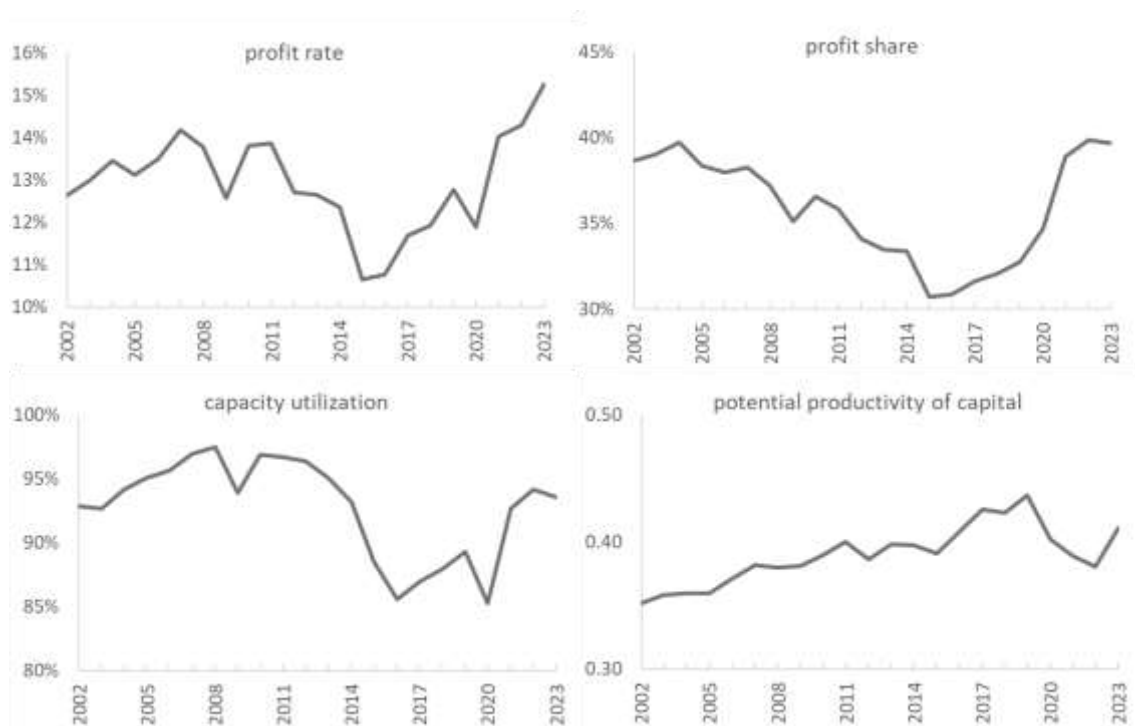
Source: Marquetti et. al (2023), Miebach and Marquett (2023), and IBGE (2024).

Figure 1 illustrates the fluctuation of the profit rate and its components from 2002 to 2023. Initially, the profit rate, a crucial indicator of economic vitality, displayed a cyclical

pattern until 2015. This behaviour prompts us to explore the underlying economic dynamics further. A notable shift occurred after 2015, with the profit rate growing, indicating a change in the economic landscape.

From 2002 to 2007, the profit rate increased despite declining profit share, fueled by heightened capacity utilization and potential capital productivity. However, between 2007 and 2015, the profit rate fell due to diminishing profit share and capacity utilization. Conversely, between 2015 and 2023, the profit rate expanded, driven primarily by an upsurge in the profit share resulting from neoliberal reforms and, to a lesser extent, by higher capacity utilization. Notably, the expansion of the profit share began in 2016 and accelerated post-2019. Although potential capital productivity rose between 2015 and 2019, it subsequently declined after the pandemic and has yet to rebound to its previous levels. In 2023, the profit rate reached its highest value in the period due to the expansion in potential capital productivity. Indeed, the increase in profit rate opens space for expansionary economic policy.

Figure 1. The profit rate and its components, Brazil, 2002-2023



Source: Marquetti et al. (2023), Miebach and Marquetti (2023), IBGE (2024a) and authors' calculations.

3. The Brazilian economy under Workers' Party leadership

At the beginning of the 21st Century, the symbiotic relationship between the United States and China shaped the global economy. As the Chinese economy flourished, commodity demand skyrocketed, leading to a surge in global market prices. This boom in commodity prices was positive for peripheral countries, including those in Latin America. Simultaneously, after two decades of neoliberal reforms and disillusionment with the promise of rapid economic and social progress, left-wing parties rose to power in several Latin American nations around 2000, a phenomenon that came to be known as the Pink Tide.

Initially bolstered by the commodities boom, the Pink Tide governments embarked on an era of expanded social and redistributive policies, economic growth, and increased national

autonomy. In Brazil, the Pink Tide was marked by Lula's two terms between 2002 and 2010 and the first Rousseff Administration between 2011 and 2014. However, Rousseff's second term was overshadowed by economic and political turmoil, culminating in an impeachment process in 2016.

The failures of neoliberalism to promote economic growth in the 1990s were relevant to the victory of Lula and the Workers' Party in 2002. However, other factors also played a crucial role. Lula strategically organized a broad alliance with various social sectors, including the working class and segments of the bourgeoisie (Boito Jr. and Saad-Filho, 2016). In July 2002, Lula signed the 'Carta ao Povo Brasileiro,' reassuring the country's financial bourgeoisie that the government would maintain specific neoliberal economic policies, particularly a high real interest rate (Silva, 2002).

After coming to power, the Workers' Party adopted a nuanced economic strategy combining developmentalism and neoliberalism elements. In the initial stages of Lula's first term, there was a pragmatic embrace of neoliberal policies aimed at reassuring the bourgeoisie and maintaining economic stability. This approach included commitments to inflation targets, floating exchange rates, and primary surplus targets to ensure fiscal balance. Concurrently, efforts were made to expand social welfare programs, focusing on consolidating various cash transfer initiatives under the Bolsa Familia program.

This approach sought to assert Brazil's autonomy and leadership within Latin America, aligning with the broader trends of the Pink Tide movement. Brazil pursued regional leadership as part of this strategy, bolstering ties with neighboring nations and playing a more prominent role in international forums such as the G-20. Additionally, Brazil actively participated in emerging alliances like BRICS (Brazil, Russia, India, China, and South Africa) and helped establish new initiatives such as UNASUL (Union of South American Nations). Despite these initiatives, Brazil maintained diplomatic ties with traditional allies like the United States and other developed countries, signalling a multifaceted approach to foreign relations.

On the political side, the legislative support depended on a large political coalition that implied constraints on the government's political choices. In 2005, the political crisis of Mensalão forced the government to ally with the Brazilian Democratic Movement Party, PMDB, the largest party in Congress. Following the crisis, Guido Mantega replaced Finance Minister Antonio Palocci Filho, and developmentalism became predominant—a new policy for minimum wage contributed to inducing wage share and consumption growth, and income transfer programs were amplified. In 2007, the Program of Economic Acceleration, PAC, which consisted of a set of public and private investments, was launched under the leadership of Dilma Rousseff.

The period between 2003 and 2007 witnessed an improvement in Brazil's terms of trade, driven by soaring commodity demand and robust economic growth. This favourable environment facilitated simultaneous increases in both the profit rate and wage share. As depicted in Figure 1, rising capacity utilization and profit rates created a scenario where the interests of workers and capitalists were not in conflict. This dynamic allowed economic gains for both social classes with higher profits, wages, and employment. The resolution of contradictory interests among various social sectors underpinned social and political stability during the Lula years. The success of the Worker's Party was anchored in its ability to mitigate social class disputes through economic conditions conducive to shared prosperity (Marquetti, Hoff and Miebach, 2020; Martins and Rugitsky, 2021).

The scenario changed after the financial crisis in 2008. The government adopted fiscal and monetary policies to foster demand and prevent the contagion of the Brazilian economy.

In 2010, Dilma Rousseff succeeded Lula in the presidency, initiating the third Worker's Party term. However, in the 2010s, terms of trade declined, and the attempts to maintain a high-level capacity utilization rate resulted in falling profit share and profit rate.

The primary effect of the United States policies in the aftermath of the crisis was the appreciation of the domestic currency. Rousseff's administration aimed to stimulate private investment through exchange and interest rate changes but failed to induce growth⁵. The financial sector viewed the new interest rate policy as the rupture of the compromises made by Lula in 2002. Rousseff's strategy relied on the notion of a rift between financial and productive capital. It was inconsistent with the institutional framework of neoliberalism, which one of its main features is the merger of productive capital with financial capital under the latter's leadership.

The year 2013 marked a turning point for the Rousseff government, as widespread protests and a downturn in economic growth significantly undermined its popularity. With a narrow margin, Rousseff's re-election in 2014 was a clear indicator of the escalating class conflict. Her campaign promised a gradual adjustment, but a neoliberal shift occurred, characterized by adopting austerity policies. These policies increased administered prices, pushing the inflation rate to 10.6 percent in 2015. An attempt to change course at the end of 2015 proved futile. Concurrently, a political crisis erupted, fuelled by the fallout from the corruption investigations of the 'carwash operation,' culminating in a soft coup through an impeachment process.

The economic crisis, the political fragility of the government after the neoliberal turn, and the reduced popular support after the corruption allegations left Rousseff's administration isolated. The bourgeoisie saw the neoliberal turn as insufficient to restore profitability; popular sectors, the primary victims of the economic crisis, distrusted a government seen as involved with corruption. In August 2016, the impeachment reached its conclusion, and Rousseff was ousted from power, ending the Brazilian Pink Tide.

4. Late Neoliberalism and the far-right in power

In October 2015, the Brazilian Democratic Movement Party (PMDB), led by then-Vice President Michel Temer, emerged as the preeminent political voice of neoliberal discontent. One of its key initiatives, the 'Bridge to the Future' program, proposed a comprehensive neoliberal policy agenda aimed at restoring profitability by reducing labour costs and implementing fiscal austerity measures.

The new government's first major proposal was a labour reform bill aimed at substantially weakening unions and reducing labour costs. This reform, along with a policy of high interest rates, fiscal contraction, and a fresh wave of privatizations, bolstered profit rates by diminishing the wage share. As displayed in Figure 1, the profit share began to rise notably in 2016, playing a central role in the expansion of the profit rate.

However, the political fallout from the "carwash" scandal eroded public trust even after Rousseff's departure. The investigation targeted figures like Lula and others in the Workers' Party, but it quickly spread and demoralized the whole political system. The Temer administration faced low popularity due to its staunch defence of capitalist interests amidst ongoing political scandals.

⁵ Morrone, Marquetti, and Miebach (2023) pointed out that the growth of non-productive activities played a role in this process.

Concurrently, global political shifts towards the right, exemplified by events like the 2016 Brexit and Trump's election, emboldened the Brazilian far-right. During this period, we have witnessed the formation of an organized movement with ties to influential Trump supporter Steve Bannon.

Despite facing condemnation, Lula remained a favourite for the 2018 election. However, in April 2018, a tweet from then-Army Commander General Villas-Boas marked the explicit return of the military to Brazilian politics. The subsequent arrest and barring of Lula from running further paved the way for Jair Bolsonaro's victory. Bolsonaro's election marked the resurgence of the Brazilian military in politics. Bolsonaro was supported by a right-wing coalition comprising conservative and far-right groups, various religious denominations, segments of the military, agribusiness, commercial entrepreneurs, and neoliberal factions symbolized by Finance Minister Paulo Guedes.

Bolsonaro's economic policies largely mirrored those of the Temer administration, promoting social pension reforms and relaxing environmental and labor protections. The government also granted independence to the Central Bank and promoted private management in sectors like natural gas and sanitation. Privatization efforts initiated under Temer continued, including selling assets belonging to Eletrobras and Petrobras.

In addition to its domestic agenda, Bolsonaro's government pursued a foreign policy marked by automatic alignment with the Trump administration and Israel, partly driven by religious considerations. This approach included rhetorical confrontations with neighbouring countries like Venezuela and Argentina, producing diplomatic crises with France and China. Brazil's international isolation intensified following Trump's defeat in the 2020 U.S. election.

Brazil, like many nations, faced severe repercussions from the COVID-19 pandemic. While late neoliberal policies succeeded in boosting profit rates by reducing wage share, they failed to adequately protect the health and income of workers and vulnerable populations. Bolsonaro initially advocated for a herd immunity strategy against the pandemic, which proved ineffective in containing the virus's spread. The resulting social and economic impacts, including high unemployment and declining real wages after government transfers ceased, exacerbated political divisions within Bolsonaro's right-wing coalition and rapidly increased poverty.

The government responded to mounting political and social pressures by passing emergency cash transfer laws in April 2020, providing short-term relief and temporarily boosting Bolsonaro's popularity. However, poverty rates escalated sharply following the termination of these transfers, with average household income plummeting by 6.9% in 2021 (IBGE, 2024b). Despite attempts to reverse declining popularity through policies like reduced fuel taxes, Bolsonaro's measures were insufficient to secure his re-election. In a tightly contested election, Lula emerged victorious, signalling a shift away from incumbent leadership for the first time since democratization.

The electoral outcome suggests a limit to the decline in real wages experienced under Bolsonaro's administration. For now, the far-right has been ousted from power in Brazil, marking a significant turning point in the country's recent political trajectory.

5. The First Year of Lula's Third Term

In the days before the election, Lula published a letter called the 'Carta para o Brasil de Amanhã' (Letter to the Brazil of Tomorrow). It presented the main proposals of the new government (Silva, 2022). On December 22, the final report of the transition office, whose

task was to prepare for the change of power, reaffirmed the points raised in the Letter to the Brazil of Tomorrow. The main economic proposals were:

- Revision of the cash transfer program, dubbed Bolsa Familia, with the distribution of extra money depending on the number of children.
- Provide real gains to minimum-wage receivers and retired citizens.
- Renegotiation of citizens' debt in economic difficulties and provision of credit access to the highly indebted population.
- Income tax exemptions to citizens receiving up to 5,000.00 reals monthly accompanied by a tax reform.
- Stimulate public and private investments in infrastructure.
- Public banks and state companies are used to increase investment and provide services.
- Reindustrialization, modernization of the country, and entry into digital technology.
- Fight deforestation and target zero carbon dioxide emissions in generating electricity, stimulating sustainable agriculture, mining, and quarrying.

Both documents pointed to the necessity for the recovery of state capabilities of planning, execution, and implementation of public policies after the disruption of the State apparatus under Bolsonaro's government (Lotta; Silveira, 2021). There is also a sense of urgency concerning Brazil's repositioning in the international community and its forums. The proposals aimed to restore Brazilian influence in forums like MERCOSUL and BRICS, among others. It also seeks to restore an environmental policy that can improve the image and help access international funds to preserve the Amazon Forest.

One of the first measures of the new government was a Proposed Constitutional Amendment, PCA, that allowed the new government to raise the spending ceiling by R\$ 145 billion in the 2023 Budget. The PCA, known as the "transition PCA," allowed opening space in the budget for a series of measures like raising the value of the Bolsa Familia payments, a real rise of the minimum wage, rising in the salaries of public servants and resources for education, health, and other investments (Marquetti, Miebach and Morrone, 2023).

The far-right opposition organized itself after the election while the political negotiations for the transition advanced. Demonstrations and protest camps were established near army bases nationwide, demanding military intervention. The Brazilian military refused to act against those demonstrations. Lula's inauguration took place without the presence of Bolsonaro and its military vice-president.

On January 8, 2023, there were massive mobilizations in Brasilia from supporters of Bolsonaro. The protestors invaded the Congress, the Presidential Palace, and the Supreme Court, vandalizing its buildings and demanding military intervention. The government reacted by avoiding the use of the army. Instead, the government's reaction was to intervene in the police of Brasilia and use it to disperse the protesters. The episode had shown to the government that the election did not settle the dispute for power. It became clear that military sectors, religious groups, and others of Bolsonaro's followers constituted a militant opposition front that could threaten the country's political stability.

Further investigations indicated a plan for a coup d'etat. The Supreme Court ordered the arrest of several former administration members and others suspicious of being involved in those actions. The judiciary declared Bolsonaro ineligible and has been investigating the former president over accusations of planning the coup d'etat.

The January events indicated that the government started under intense political pressure, highlighting the complex nature of the political situation. They reassured the tendencies inside the government to make a large alliance to isolate the far-right groups. The legislature's composition was another point of attention since the government needed support from conservative mainstream politicians. Pressure also came from the financial oligarchies and other neoliberal groups that demanded fiscal contraction measures and projected low growth for 2023. The government opted for a conciliation strategy, which was in line with the approach of the previous Lula's terms. There was a cautious treatment of the military issue. Investigations about the coup attempt were left to the judiciary. The government opted to refrain from promoting any change in its military to restore tranquillity. Several posts in the administration were given to the conservative mainstream politicians, as traditional in Brazilian politics, to guarantee support in the legislative. With the "transition PCA" approved, there was a fiscal space in the first year of government. In this scenario, the government, through its finance minister, Fernando Haddad, assured the financial oligarchies and its neoliberal satellites (mainstream media and economic pundits) that it would adopt fiscal restraint. In August 2023, a new budgetary regime was proposed with a zero fiscal deficit target for 2024.

These developments initially indicated a series of internal political constraints for the government. However, Lula emphasized the change in Brazil's foreign policy first, a move that could have significant global implications. The new president embarked on a series of trips abroad to recover the lost protagonism in international forums. Brazil searched to restore its role in the BRICS and indicated former president Dilma Rousseff to the presidency of the New Development Bank. There was a more assertive approach in the search for peace in the Ukraine War. Brazil positioned itself against the actions of Israel in Gaza in the aftermath of the Hamas attack, leading to a diplomatic crisis with the Israeli government. Brazil also tried to mediate the border conflict between Venezuela and Guiana and relaunch the Mercosur. However, the election of a far-right president in Argentina struck a blow to Brazil's intentions to recover its former leadership in South America. It remains to be seen if this set of policies and actions will achieve the previous success of the former "proud and active policy," especially in a more conflictive international environment where soft and hard power are both exercised.

During 2023, while presidential diplomacy returned, a higher profit rate, combined with a more expansionary fiscal policy, exceptional agriculture performance, and growing exports, allowed the Brazilian economy to overcome most growth expectations from the financial markets. GDP rose 2.9 percent in 2023, almost the same as in 2022 (3.0 percent). The inflation rate fell faster than expected through 2023, helped by the external sector and favourable environmental conditions, which decreased energy and food prices. Unemployment fell, and the average labour income grew, although interest rates remained high. There was a rise in the wage share, but the profit rate kept rising since capital productivity rose as the terms of trade improved. It was a scenario like the first Lula term. The government policies indicate a perception that a new cycle of growth based on mutual gains for workers and capitalists was possible, validating the conception of a coalition government.

Growth seems like a drive-by, short-term wage-led dynamic and fiscal policy. Despite the rise in the profit rate, productive investments declined 3% in 2023 compared to 2022. New tax legislation and other measures aimed at raising tax collection were approved. The government hopes to balance the public budget by raising government receipts and reducing

the need to cut expenses while achieving the fiscal targets in 2024. It remains to be seen whether this strategy will be successful.

In the final months of 2023, scepticism emerged regarding the government's prospects. The international environment deteriorated, marked by escalating tension in global conflicts and the perspectives of a turbulent electoral process in the United States. Additionally, there were no expectations of a reduction in Federal Reserve interest rates in the first quarter of 2024. Also, the effects of the "transition PCA" in 2024 are expected to constrain fiscal space, and the prices of some commodities, especially soybeans, will be lower than in 2023. The beginning of 2024 witnessed rising food prices and declining government popularity. Although growth projections for 2024 are anticipated to be lower than in 2023, they remain higher than estimates provided by the financial markets.

At the outset of 2024, the government introduced a new industrial policy, drawing inspiration from the concept of missions advocated by Mazzucato (2021). While this initiative has sparked considerable optimism, questions linger regarding its long-term sustainability and potential to transcend partisan boundaries akin to the agricultural policy. The government also faces difficulties in boosting investment in state-owned enterprises (SOE). There was a crisis in Petrobras in April of 2024 about the choice between retaining profits to invest or paying dividends to its private shareholders, a clear sign of the power of the neoliberal interests in the new government.

Although there were limits, the results of Lula's first year yielded moderate outcomes. Several proposals were implemented, like real raisings to Bolsa Familia and minimum wages, the program for debt renegotiations, the tax reform, and the new industrial policy. Some initiatives are in their initial stages and need to produce effective results. Other proposals have yet to materialize, such as higher tax exemptions, growing investments in infrastructure, and a stronger stance against deforestation and dioxide emissions.

Lula's first year's primary achievements were economic growth, the increase in workers' incomes, and the profit rate. Lula's popularity may remain high if the economy continues growing and the moderate distributive conflict ensures gains for most social strata. This is challenging for any government under the neoliberal institutional framework, even for an experienced leader like Lula. The former Workers' Party government could not sustain this kind of trajectory. The government must address several short- and long-term dilemmas to remain on this path to obtain its re-election in 2026 and keep the far-right out of power. We turn to these points in the next section.

6. Final Remarks: Short- and Long-term dilemmas

The government's current strategy of boosting economic growth through expanding aggregate demand and capacity utilization faces inherent limitations. While fiscal expansion could provide more room for manoeuvre, the existing fiscal rules constrain such efforts. The higher profit rate may induce private investment in this scenario and even in the context of a conservative monetary policy. However, its intensity will depend on external conditions like international terms of trade. There is the risk that the Lula Administration will replicate the approach adopted in the early 2000s. The Brazilian economy's productive structure is now more dependent on the primary sectors and less industrialized. Moreover, the global economy is less stable than in the first years of the 21st Century. Without public investment, growth fuelled solely by the profit rate may prove transient, mainly if the government aims to sustain commitments such as rising minimum wages, potentially leading to a profit squeeze.

The tendency to increase workers' bargaining power in the new government also points to limits to profit rate expansion. Continuing wage-led growth in the context of falling profitability will not be sustainable. Public investment can catalyze growth, but it requires a new fiscal rule. The use of SOEs is crucial to sustain higher investment levels. The question remains whether Petrobras can return to its previous investment volumes. In the short term, the possibility of easing the tight monetary policy is reduced, and only after the change of the president of the Central Bank at the end of 2024 will there be the possibility of a new monetary policy. Maintaining an annual growth rate between 2 and 3 percent remains feasible, mainly if there are signs of improvement in the international landscape. The aftermath of the recent natural disaster in the Southern state of Rio Grande do Sul may open an opportunity to enhance public and private investments.

Sustaining medium- and long-term growth will be more complex since it requires greater capital accumulation. The fiscal rules adopted inhibit a more intense public investment. There were fewer SOEs in 2024 than in the 2000s to boost investments. The new industrial policy, which will take time to bear fruit, can promote discussion and reflection on the national development project. A relevant possibility remains in attracting foreign investments to environmentally friendly activities. Another possibility resides in using diplomatic leverage to attract investments from China and the United States, emulating in some sense the previous Brazilian experience on the eve of the Second World War. The recent announcement of a Chinese electric car factory in a location formerly occupied by a Ford Motors plant is a sign of these possibilities. However, all these alternatives depend not only on international actors but also on internal ones. The broad coalition built by Lula may be a limitation to a more active posture.

The Brazilian economy lost its capacity to grow with the advent of neoliberalism. Through neoliberalism, Brazilian oligarchies sought to restore profitability, highlighting the contradiction between increasing investments in infrastructure and reindustrialization alongside a rise in the profit rate. Mechanization is not associated with increasing profit rates in developing countries (Marquetti, Miebach, and Morrone, 2024). On the contrary, increasing labor productivity is associated with capital intensification and a decline in profit rates in the long term.

The Lula coalition, a key element in shaping Brazil's economic and political landscape, struggled to marginalize neoliberal interests within Brazilian society effectively. The political strength of the far-right implied a more conciliatory government in the third term compared to the two previous terms. This poses greater challenges in overcoming the impositions of neoliberal views from the Brazilian oligarchies. There exists an inherent contradiction in combating the far-right while preserving the tenets of neoliberalism, as neoliberal policies and their outcomes often provide fertile ground for the growth of the far-right.

The key to Brazilian development lies in moving away from neoliberalism and adopting a new institutional framework capable of fostering higher economic growth, employment, and environmental preservation. Achieving this involves restoring capital accumulation while reducing greenhouse gas emissions, which poses a significant challenge for the government. Such a transformation depends on a new institutional framework that can incentivize investments despite declining profit rates. In this endeavour, public investments play a crucial role.

On the other hand, the success of the new industrial policy in fostering private investments also depends on macroeconomic policies. An industrialization effort under neoliberal macroeconomic policies is fated to fail. To succeed in reindustrialization, it is

necessary to coordinate the industrial strategy and the short-run macroeconomic policy (Nassif et al., 2018). In the long term, a strategic development plan is necessary.

The capitalist economy in the last decade put neoliberalism on the defensive. Even the IMF, a central supporter of neoliberalism, has noted that neoliberal policies, rather than achieving economic growth, increase inequality and jeopardize long-term growth (Ostry, Loungani, and Furceri, 2016). Indeed, there are clear political limits to implementing a developmentalist strategy for economic development under neoliberalism. Moreover, the Brazilian elites do not seem ready to abandon neoliberalism.

Based on Marquetti et al.'s research in 2023, we found that Brazil's main challenge is to boost capital accumulation. Demand policies usually have a short/medium-term impact with no effect in the long term. The profit rate plays a critical role in explaining accumulation and growth.

Therefore, promoting capital accumulation is critical to achieve sustainable growth. New institutions and a departure from neoliberalism are also required to move the Brazilian economy toward sustainable growth. We summarize our main results as follows:

- In its first year, Lula's political aim was to build a political coalition to isolate the far-right.
- On the economic side, the government policies were conciliatory, promoting gains for the poor and sustaining the tenets of neoliberalism.
- It is possible to sustain this path in the short term if the external conditions improve.

Departing from neoliberalism, stimulating public enterprises and public investment, and building new developmental institutions are necessary to enhance long-term growth.

Lula's government is inclined to repeat similar short-term policies, which are easier to implement since they do not imply structural changes. The challenge of Lula's term is to navigate between the far right and neoliberalism to achieve inclusive growth with structural change. The government tried to do this in its first year, but while it successfully isolated the far right, circumventing neoliberalism proved more difficult.

References

- Boito Jr., A., and Saad-Filho, A. (2016). State, state institutions, and political power in Brazil. *Latin American Perspectives*, 43(2), 190–206.
<https://doi.org/10.1177/0094582X15616120>
- Fisher, E. (2018). A SFC political business cycle: Kalecki's 1943 model revisited. *Investigación Económica*, 77(306), 21-43.
- Goodwin, R. M. (1967) A Growth Cycle. In: *Capitalism, Socialism and Economic Growth. Essays Presented to Maurice Dobb*, ed. C. H. Feinstein. Cambridge: The University Press.
- IBGE (2024a). *Sistema de Contas Nacionais Trimestrais: Brasil*. Rio de Janeiro: IBGE . Available at: <https://www.ibge.gov.br/estatisticas/economicas/contas-nacionais/9300-contas-nacionais-trimestrais.html>. (Retrieved April 15, 2024).
- IBGE. (2024b). *Pesquisa Nacional por Amostra de Domicílios Contínua: Brasil*. Rio de Janeiro: IBGE. Available at: <https://www.ibge.gov.br/estatisticas/sociais/trabalho/17270-pnad-continua.html>. (Retrieved April 16, 2024).
- Lotta, G., and Silveira, M. (2021). Attacks on the bureaucracy within contexts of a democratic backsliding: Bolsonaro's government oppression and bureaucratic reactions. [online] Available at: <https://pex-network.com/2021/11/25/attacks-on-the-bureaucracy-within->

- contexts-of-a-democratic-backsliding-bolsonaros-government-oppression-and-bureaucratic-reactions/
- Martins, G., and Rugitsky, F. (2021). The long expansion and the profit squeeze: Output and profit cycles in Brazil (1996-2016). *Review of Radical Political Economics*, 53(2), 373–397.
- Marquetti, A. Hoff, C. and Miebach A. (2020). Profitability and Distribution: The Origin of the Brazilian. Economic and Political Crisis. *Latin American Perspectives*, 47, 115-133.
- Marquetti, A., Maldonado Filho, E., Miebach A. and Morrone, H. (2023). Uma interpretação da economia brasileira a partir da taxa de lucro: 1950-2020. *Brazilian Journal of Political Economy*. 43(2) Apr-Jun.
- Marquetti, A., Miebach A. and Morrone, H. (2024). *Unequal Development and Capitalism Catching Up and Falling Behind in the Global Economy*. London: Routledge.
- Marquetti, A., Miebach A. and Morrone, H. (2023). Back in Power: Prospects and Limits of Lula's Government. *Investigación Económica*, 82(324), 3-26.
- Marquetti, A., Miebach A. and Morrone, H. (2024). *Unequal Development and Capitalism: Catching up and Falling behind in the Global Economy*. London: Routledge.
- Mazzucato, M. (2021). *Mission Economy. A moonshot guide to changing capitalism*. New York: Harper Business.
- Miebach, A., Marquetti, A. (2022). A distribuição funcional de renda no Brasil: 1947-2019. *Nova Economia*, 32(3), Sep-Dec.
- Morrone, H., Marquetti, A., and Miebach A. (2023) Productive and Unproductive Setor's interactions in Brazil: a Miyazawa Analysis 55 (2), *Review of Radical Political Economics*, 251-268.
- Nassif, A., Bresser-Pereira, C., and Feijó, C. (2018). The case for reindustrialisation in developing countries: towards the connection between the macroeconomic regime and the industrial policy in Brazil. *Cambridge Journal of Economics*, 42(2), 355–381. <https://doi.org/10.1093/cje/bex028>
- Silva, L. (2002). Carta ao povo brasileiro. [online] Available at: http://www.iisg.nl/collections/carta_ao_povo_brasileiro.pdf (Retrieved November 25, 2022).
- Silva, L. (2022). *Carta para o Brasil de amanhã*. [online] Available at: <https://pt.org.br/wp-content/uploads/2022/10/amanhacc83-v1-1.pdf> (Retrieved November 25, 2022).
- Ostry, J., Loungani, P., and Furceri, D. (2016). Neoliberalism: Oversold? *Finance & development*, 53(2), 38–41.
- Weisskopf, T. (1979). Marxian crisis theory and the rate of profit in the postwar U.S. economy. *Cambridge Journal of Economics*, 3(4), 341–378. <https://doi.org/10.1093/oxfordjournals.cje.a035429>