University of Alberta

Critiquing Dependent Development:

The Limits to Foreign Capitalist Expansion in Brazil

by

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List of Abbreviations

BNDES	Banco National de Desenvolvimento Economica e Social (National Bank for Economic and Social Development)
CNI	Confederacao Vacional da Industria (National Industrial Confederation)
CUT	Central Unica dos Trabalhadores (Unified Workers' Confederation)
ECLA	Economic Commission on Latin America (A United Nations organization, now known as ECLAC, Economic Commission on Latin America and the Caribbean)
FDI	Foreign direct investment
FIESP	Federacao das Industrias do Estado de Sao Paulo (Federation of Industries of the State of Sao Paulo)
GDP	Gross domestic product
IMF	International Monetary Fund
ISI	Import-substitution Industrialization
LIEO	Liberal international economic order
MDB	Movimento Democractico Brasileiro (Brazilian Democratic Movement)
Mercosul	Mercado Commun del Sul (South American common market)
PFL	Partido da Frente Liberal (Liberal Front Party)
PMDB	Partido do Movimento Democraticp Brasileiro (Party of the Brazilian Democratic Movement)
PND	Programa Nacional de Desestatizacao (National Privatization Program)
PNE	Private National Enterprise

PSDB	Partido da Social Democracia Brasileira (Brazilian Social Democracy Party)
PT	Partido dos Trabalhadores (Workers' Party)
TNC	Transnational corporation
WB	World Bank

Introduction

In their classic analysis of dependency and development in Latin America, Fernando Henrique Cardoso and Enzo Faletto (1979) diagnosed a new form of development taking place, one characterized by the international capitalist expansion of the transnational corporation (TNC).[1] Local state capital, private national capital, and foreign investment by TNCs had become the new propellers of economic growth, leading to a new pattern of capital ownership in Latin America. Cardoso and Faletto characterized this new model of development as a dynamic process, which allowed for both economic development and social mobility of the domestic capitalist classes, as they shared an interest in internal prosperity.[2] At the same time, a new form of dependency accompanied this form of economic development because TNCs controlled the technology that powered economic growth. As a result, countries in Latin America were developing, but were also dependent upon others for their continued capitalist advancement.

It was a diagnosis Cardoso and Faletto made on the basis of their theoretical understanding of capital, class and the state, which was an understanding based on Marx and Gramsci. In another article, Cardoso (1972) even characterized this new form of international capitalist expansion led by TNCs as imperialist. Cardoso and Faletto (1979:202) concluded their analysis with a warning to their readers. In this form of dependent development, the state had clearly identified its interest with both foreign and domestic capitalist classes, and therefore confused the broader social interests of Brazilian society with the defence of the business enterprise.

Twenty years later, Cardoso was elected president of Brazil (1995-2002). Despite his earlier warning, Cardoso chose to guide the social and economic development of Brazil by implementing a model of dependent development under what Charles Gore (2002) calls the Washington Consensus development paradigm[3]. The central focus of this model is the need to attract foreign investment. This model therefore promotes trade and capital account liberalization, privatization of state enterprises and deregulation, and macroeconomic stability through control of inflation and reduced fiscal deficits.

By the end of Cardoso's presidency, the Brazilian economy was unravelling, with the currency over-valued by 20 percent, a trade and service deficit that had skyrocketed from $1.7 billion in 1994 to $35 billion in 1997, and a cumulative debt that rose from $62 billion in December of 1995 to $300 billion in October 1997.[4]

In the presidential election of 2002, an unhappy electorate threw Cardoso's party (the Partido da Social Democracia Braziliera (PSDB) now led by Cardoso's successor, Jose Serra) out of office. In his place, Brazilians elected Luiz Inacio Lula da Silva, popularly known as Lula, and the Partido dos Trabalhadores (PT), The Workers' Party, by a resounding 61.3 percent of vote.[5] One happy observer claimed the election "demonstrated that broad sectors of the middle class and parts of the capitalist class joined the working class in rejecting the neoliberal model of the last decade" (Dore 2003:23).

The diagnosis of dependent development by Cardoso when he was an academic in the 1960s and 1970s, followed by his commitment to the Washington

Consensus development paradigm and then the election of Lula, raises interesting questions. Considering Cardoso's Marxist and Gramscian intellectual tradition, why would he implement a development model in the 1990s he had characterized as imperialist twenty years before? Why would the members of Brazil's capitalist class abandon Cardoso's governing party to ally themselves with Brazil's working class? Had not Cardoso kept his promises to look after the interests of the capitalist classes, both domestic and international, by adopting the Washington Consensus?

The debate in the literature over the last decade on the economic impact of Cardoso's neoliberal economic reforms has included both those who support these reforms (Amann and Baer 2002; Bauman 2002; Williamson 2003) and those who oppose them (Cypher 1998; Saad-Filho 2003). There have been competing analyses on the success and failure of Cardoso's inflation stabilization plan (the Real Plan), and the effect of the 1999 devaluation of Brazil's currency (Amann and Baer 2002, 2003; Morais and Saad-Filho 1999; Saad-Filho and Mollo 2002); on the impact of high interest rates and Brazil's effort to continue servicing its expanding debt (Williamson 2002, 2003; Fraga and Goldfajn 2002; Weisbrot and Baker 2002; Weeks 1995); and on the impact of foreign capital inflows resulting from the privatization of state-owned enterprises (Baer 2001; Rocha 1994, 2002; Saad-Filho 1998).

While these analyses have successfully illuminated the basic trends through which capitalist expansion has occurred in Brazil, there is a gap in the literature regarding the socio-political limits to this form of capital accumulation.

By socio-political limits, I refer to the constraints imposed on capitalist expansion by class struggle. In the literature I examined, the analysis of the socio-political limits of Cardoso's neoliberal economic reforms is left vague. Those in support of these reforms hope they will be continued (Amann and Baer 2002; Bauman 2002) while those opposed demand they be abandoned (Rocha 1994, 2002; Morais and Saad-Filho 1999; Saad-Filho and Mollo 2002; Saad-Filho 2003).

The election of Lula, and his ability to attract voters from subaltern, middle and capitalist classes, provides an opportunity to explore the socio-political limits of neoliberal capital accumulation as an expression of class struggle. I argue that Cardoso, despite being steeped in the intellectual tradition of Marx and Gramsci, remained committed to a form of dependent development he diagnosed twenty years before. Without attempting to change the essential characteristics of Brazil's situation of dependency, Cardoso implemented a model of development that reproduced and then accelerated it, without constructing a hegemonic base of support, not only with subaltern classes (such as the landless peasant class and the working class) but also even amongst the domestic capitalist elites. Just as this model of dependent development created new patterns of corporate ownership in the in the1960s and 1970s, Cardoso's model in the 1990s, with its focus on attracting foreign investment, resulted in the takeover of many of the most dynamic sectors of the Brazilian industrial structure by foreign corporations. With their power to influence the development and implementation of a nationally-based industrial strategy badly eroded, those domestic elites disenfranchised by the Washington Consensus development model voted for an alternative, fracturing the unity of the Brazilian capitalist class, providing Lula with the support he needed to win the 2002 presidential election.

To argue this case requires an analysis of both the imperatives of the world market and the constraints imposed by class struggle, and therefore a theoretical framework that embraces four moments: the economic and the political, as well as the international (external) and the national (internal). These moments are like different windows, or perspectives, from which to view the same event. It is important to remember, however, that these moments are tightly intertwined, and the distinction between them is often blurred. As a result, the analysis requires an investigation that examines not just the economic impact of neoliberal economic reforms on the capitalist classes, but also the socio-political conditions that account for change. I therefore use a particular historical materialist framework, one which understands the state and its model of development as moments in the social relations of production, and therefore as expressions of class struggle. To establish theoretical points of intersection between the economic and political, and between internal and external class interests, I include in this framework a Gramscian understanding of hegemony, historic bloc and the state. As will be explained in detail in chapter two of this thesis, this is the theoretical framework used by Cardoso and Faletto (1979) in their analysis of dependency and development in Latin America.

I therefore pick up where Cardoso and Faletto left off in their analysis of dependent development in the 1960s and 1970s, by employing their analytical approach of historical-structural analysis to "illuminate the basic trends through which capital expansion occurs and finds its limits as a socio-political process" (Cardoso and Faletto1979:xx). Their methodology is helpful for three reasons. First, a historical perspective is used to explain how Brazil's national economic system developed, and how it became integrated into the world capitalist system. Second, this analysis identifies social structures, both economic and political, as "products of man's collective behaviour," and provides a methodology to examine how these structures are historically transformed through conflict and class struggle (Cardoso and Faletto 1979:x). Third, Cardoso and Faletto (1979:xvii) recognize the importance of transnational corporations (TNCs) and how their ability to concentrate and centralize capital, and monopolize technological progress, make them obligatory starting points of analysis. Cardoso and Faletto's historical-structural analysis, which is based on this Marxist/Gramscian theoretical framework, provides the lens needed to examine the limits of capitalist development "as expressed by the political context that allow or prevent the actualization of different forms and phases of capitalist accumulation" (Cardoso and Faletto 1979:xx).

There is, however, a weakness in Cardoso's examination of the political economy of Brazil, not in his methodology so much as in his treatment of the national bourgeoisie. Cardoso (1973:163) sees the Brazilian bourgeoisie as no more than a "child of dependent capitalism," not strong enough to stage its own 'revolution' (a reference made to the American and French revolutions). In Cardoso's (1973:163) view: "Its "revolution" is limited to integrating itself into the scheme of international capitalism, to associating itself with international capitalism as a dependent and minor partner." Therefore, Cardoso (1973:146) claims "that it does not matter greatly whether industrial firms are owned outright by foreigners or are owned by Brazilians associated with foreign corporations, for in either case they are linked to market investment, and decision-making structures located outside the dependent country." For Cardoso and Faletto (1979:xvi), dominant national interests are simply a refection of the value and interests of foreign capitalists. Such a view does not allow for the analysis of struggle between domestic and foreign fractions of the capitalist classes.

To make sense of corporate ownership as a reflection of shifting power among fractions of the capitalist class, I use a methodology developed by Jonathan Nitzan (1998, 2001; Jonathan Nitzan and Shimshon Bichler 2002; Bichler and Nitzan 2003) to analyze what he calls 'differential accumulation'. According to Nitzan and Bichler (2002:38), to accumulate differentially is to increase ones relative share of total profit and capitalization, which increases ones relative power to shape the process of social change. Nitzan's theory of differential accumulation changes the purpose of capital accumulation, from the growth of capital to the control of capital, and therefore incorporates the notion of power into the very definition of capital. Nitzan's methodology offers us the opportunity to go beyond a neoclassical economic analysis of foreign investment and acquisition of companies, which assumes a rationale of improving efficiency, to explain ownership as a means of gaining power and control. Placing capital as power at the centre of the analysis incorporates the notion of struggle within the capitalist class itself, through differential accumulation.

Therefore, following Cardoso and Faletto, my research focuses on the historical dimensions of corporate ownership in Brazil, its concentration in the hands of international capital during Cardoso's two terms as President (1995-2002), the empowerment of international capital at the expense of domestic capital, and the socio-political limits of this form of capitalist expansion as expressed by the election of Lula. I use the same lens of historical materialism adopted by Cardoso and Faletto twenty-five years ago because they explicitly used Marx's understanding of capital and class, and Gramsci's concept of hegemony, historic bloc and the state. I employ their methodology of historical-structural analysis because it supports a historical analysis of corporate ownership in Brazil, and an approach to analyzing the socio-political limits of this form of capitalist expansion. I combine their framework with Nitzan's methodology to deepen the macroeconomic analysis by focusing on shifting relations of power between the state, domestic capital and international capital. My contribution is to critique dependent development as instituted by Cardoso under the Washington Consensus development paradigm by examining the socio-political limits of this form of neoliberal capital accumulation as expressed by the diminishing ownership share of domestic capital and the election of Lula as a rejection of this form of capitalist development.

I develop my argument in four chapters. In chapter one, I present a detailed review of the literature on Cardoso's economic policies over the last decade. In this chapter I argue that the acceptance of the state/market dichotomy, with its focus on the state and its capacity to implement, or not, the Washington

Consensus development paradigm, has analytically limited the debate. I first outline a framework for analyzing the current literature on Brazil, identified by Ben Fine and Colin Stoneman (1996) and Charles Gore (2000), which identifies the limitations of the current analysis, and the gap in the literature my own research attempts to fill. I focus on what observers have identified as basic trends through which capitalist expansion has occurred in Brazil over the last decade, and what they consider to be the positive and negative impacts of various macroeconomic constraints on Brazil's economic development.

In chapter two, I present the theoretical and analytical framework I use to overcome the limitations I identified in the literature review. I first situate Cardoso and Faletto's analysis within the literature of dependency theory, a diverse body of literature that is important in understanding the relationship of developing economies in Latin America to the world capitalist system. I then describe Cardoso and Faletto's Marxist understanding of capital and class and their Gramscian understanding of hegemony, historic bloc and the state, and why these concepts within a historical materialist framework are necessary to understand the socio-political limits of capitalist expansion as an expression of class struggle. I also examine Cardoso and Faletto's thesis of dependent development and the emerging contradiction between Cardoso the theoretician and Cardoso the politician, a contradiction I examine in detail in chapter four. I then explain Jonathan Nitzan's concept of capital as power, his methodology of analyzing regimes of differential accumulation, and why his framework is helpful in providing insight into the strategic nature of capital accumulation in the sphere of competition, and the relations of power inherent within that strategy.

In chapter three, I analyze how neoliberal capitalist expansion has affected the Brazilian capitalist class by examining the impact of foreign direct investment (FDI), and how it has changed patterns of corporate ownership in Brazil. I examine how TNCs have historically taken control of many of the most dynamic sectors of the Brazilian economy. By doing so, these corporations have affected Brazil's industrial structure by raising levels of market concentration and by changing patterns of ownership through denationalization. My examination begins with a historical-structural analysis of the first four phases of FDI in Brazil using Gereffi and Evans' (1980) periodization: primary product export economy (1880-1930); horizontal import-substitution industrialization (ISI) (1930-1955); vertical ISI (1955-1970; and diversified export promotion (1970-1985). In my analysis of each of these four phases, I examine the structure of the Brazilian development model as a moment in the social relations of production, the role played by TNCs and FDI in that structure, and the socio-political limits of that model of development as expressed by class struggle and how this struggle changed the political and economic structures in society. I then examine FDI and the role it played in the development of Brazil from 1985 to 2002. By placing Nitzan's concept of capital as power at the centre of the analysis, I argue that a shift in corporate ownership at the end of the 1990s was not simply a means of improving overall economic performance, but was a shift from domestic to foreign control of many of the most dynamic sectors of the Brazilian industrial structure.

In chapter four, I present a historical-structural analysis of the socio-political limits to this shift in control of Brazil's industrial structure, not from the perspective of capital as power, but from the perspective of class struggle and a democratically elected leader's capacity to govern. Here, I place Gramsci's concept of hegemony at the centre of the analysis to explain the socio-political limits of foreign capitalist expansion under the Washington Consensus development paradigm. I argue that Cardoso failed during his two terms as president to construct a hegemonic project to support his development model and to sustain his party's capacity to govern. In this chapter, I first bring forward the key elements of Cardoso's understanding of dependent development under the military regime of the 1970s, and how this underpins Cardoso's acceptance in the 1990s of the Washington Consensus and its development paradigm. I then examine how Cardoso and his social democratic party, the PSDB, came to power, and the institutional factors that supported his government's elite-led style of leadership, which contributed to Cardoso's failure to construct hegemony. I then analyze the rise of Lula and the PT and their strategy, which was based on the influence of Gramsci, to create a new hegemony, a strategy that ultimately enabled them to include disenfranchised members of Brazil's capitalist classes in the historic bloc needed to come to power. To understand why members of Brazil's capitalist classes abandoned Cardoso's vision of development, I also examine the political preferences of Brazil's domestic elites and how these elites are both organized and fragmented as a class. I analyze how they responded to Brazil's transition to democracy and then to the implementation of Cardoso's development model. Finally, I examine how they responded as a class to Lula's new hegemony, leading some of its members to abandon Cardoso's development model in favour of Lula and an alternative model of national development.

Notes

[1] Cardoso and Faletto wrote this book in Chile between 1965 and 1967. It was first published in Spanish in 1971. The preface to the English edition was written in 1976, and the book was translated and published in English in 1979.

[2] Cardoso and Faletto define economic development as the progress of productive forces. I examine this in detail in chapter two of this thesis.

[3] Thomas Kuhn defines a paradigm as a constellation of beliefs, values and techniques shared by a community and based on a shared set of axioms and models. (See Kuhn in Gore, 2000:790).

[4] In this thesis, all dollar amounts refer to US dollars. Burback, R.1998. Attacking Neoliberals in Brazil. *Nation,* October 12, 267(11):19-21

[5] Branford and Kucinski 2003:43, Table 2.2.

Chapter One: Literature Review

Introduction

In my research on the historical dimensions of corporate ownership and how it has influenced the process of socio-political change in Brazil, I review the impact of neoliberal economic reforms on the political economy of Brazil over the decade of the 1990s. I examine how observers interpret the impact of various macroeconomic constraints on Brazil's development, including debt, interest rates, inflation, stabilization programs, trade and capital account liberalization, foreign capital inflows, and privatization of state-owned enterprises. This overview is important as it clarifies the context within which the sale and purchase of corporate assets takes place. The literature reviewed focuses on the performance of the Brazilian economy over the last decade, but does not address issues related to the theoretical framework of my thesis. I argue that while these observers successfully identified the trends through which capitalist expansion has occurred in Brazil during the eight years Fernando Henrique Cardoso was president (1995-2002), their focus on the acceptance or rejection of the Washington Consensus development paradigm has analytically limited the debate. As a result, their arguments on the success or failure of these economic reforms have separated economics from politics, focusing on the state's capacity to implement, or not, the neoliberal economic agenda imposed by the World Bank and the International Monetary Fund.

This chapter begins by examining the nature of the Washington Consensus development paradigm and what Fine and Stoneman (1996) call "the agenda of the World Bank and the International Monetary Fund." I then examine the analysis of observers who both support and oppose this development paradigm, and how they have interpreted Brazil's attempt to implement the tenets of this paradigm during Cardoso's tenure as president. I present these arguments in some detail, as they provide the necessary context for my discussion in chapters three and four of my thesis.

The Washington Consensus development paradigm

Fine and Stoneman (1996:3-4), in their review of literature on the state and development, suggest that much of the analysis in the 1980s and 1990s has been dominated by the neoliberal agenda of the World Bank (WB) and International Monetary Fund (IMF). This agenda is described by Charles Gore (2000) as the Washington Consensus development paradigm, which in broad terms recommends that governments should:

> reform their policies and, in particular: (a) pursue macroeconomic stability by controlling inflation and reducing fiscal deficits; (b) open their economies to the rest of the world through trade and capital account liberalization; and (c) liberalize domestic [...] markets through privatization and deregulation (Gore 2000:789-790).

As Gore explains (2000:792), these reforms have been propagated through stabilization and structural adjustment policies of the WB and IMF, and have represented the dominant approach to development since the early 1980s.

Gore (2000:792-3) argues that there are two reasons why the Washington Consensus development paradigm has been so dominant. First, this paradigm has adopted key norms of the liberal international economic order (LIEO), which include a commitment to free markets, private property and individual incentive, and a circumscribed role for government. This globally accepted normative framework, rooted in the values of LIEO, has also been embedded in the language of globalization, and has provided the international imperative for developing countries to support this development paradigm. Within this global normative framework, national interests are narrowly equated with economic growth and increasing personal economic welfare. Gore's point is well illustrated in a speech made by Horst Köhler, the then Managing Director of the IMF (2003). In this speech, Köhler explains globalization as "the result of forces for change that are deeply rooted in human nature: the drive for freedom and a better life, for new discoveries and for a broader horizon." His statement reinforces the norms of the LIEO as universal, narrowly limiting national interests to those of personal economic welfare.

Gore (2000:793-794) identifies the second reason as the ahistorical performance assessment that supports the normative framework of the LIEO. This form of analysis defines the success or failure of a country's financial performance based on a set of national macroeconomic variables, and attributes the success or failure of economic growth to domestic policy. Gore identifies how this methodological framework partitions influences into external and internal factors and effectively filters out any explanatory factors that may relate to specific historical relationships. As Gore claims (2000:793), it is an ahistorical analysis based on values that insist that "liberalization, coupled with the right macroeconomic fundamentals, 'works'."

Fine and Stoneman (1996:2) call this separation of external from internal factors, and economic from political factors the "state/market dichotomy," a form of analysis that makes the issue of state versus market analytically paramount. They also argue that the rise to prominence of the WB and the IMF has led to a body of literature that takes the role of these two international financial institutions and their agenda, even if rejected, as pivotal. They also point to the paradox that while a central tenet of this agenda has been to reduce the role of the state, it has had the perverse effect of locating the state at the centre of the analysis.

As will become clear, my review of the literature on Brazil reveals that the Washington Consensus development paradigm and its analytical methodology of ahistorical macroeconomic performance measures has permeated the analysis of those both for and against this model of development. This literature has been dominated by the WB/IMF agenda and the framework of state versus market, making the analysis of internal domestic policies versus external market factors analytically paramount. As a result, the literature I review has promoted the imposition of the Washington Consensus development paradigm as inevitable and has not examined social or political factors that could limit this form of capitalist expansion.

Supporters of the Washington Consensus development paradigm

John Williamson: 2002, 2003

Writers on the economic development of Brazil who support the Washington Consensus development paradigm include John Williamson, who coined the term 'Washington Consensus' in 1990.[1] Williamson (2002; 2003) analyzes the sustainability of Brazil's debt from a neoclassical economics perspective.[2] Using equilibrium theory,[3] he examines whether the capital flight that gripped the markets in the run-up to Lula's election is justified, and if the $30 billion IMF loan package of August 2002 is sufficient to prevent Brazil from defaulting on its debt. He concludes that present government policies are adequate to secure a gradual reduction in Brazil's debt/Gross Domestic Product (GDP) ratios.[4]

The analytical framework that Williamson (2002:2) uses is the theory of the self-fulfilling prophecy and the theory of multiple equilibria, which uses financial trends (macroeconomic fundamentals[5]) and market psychology to explain policy choices. According to Williamson, these theories argue that if international financial markets believe debt can be serviced, then it will be possible to service it (good equilibrium); if markets do not, then it will be impossible to service it (bad equilibrium). Williamson claims that a close examination of Brazil's balance of payments suggests that Brazil is in an intermediate phase, that is, strong enough to service the debt if in good equilibrium, but not strong enough if in bad.[6]

Williamson (2002:11-12) recognizes that the self-fulfilling prophesy is based on how market actors perceive the political situation in Brazil, and whether they think the state is stable or unstable, capable or incapable, willing or unwilling to implement the neoliberal adjustment policies required by the IMF and the Washington Consensus development paradigm. Williamson (2002:14) tries to convince us that Lula and the PT, once denouncers of Cardoso's economic policies, will come around to support pro-market economic policies of the Washington Consensus. He points to Lula's selection of Jose Alancar, a Brazilian textile magnate, as his running mate and to statements Lula made that he would honour commitments made to the IMF and other creditors to indicate his more conservative (read: responsible) attitude towards financial management.

In a later argument, Williamson (2003:106) again outlines why a partial default is not an option for the Lula government, and suggests that Brazil has done everything "by the book" (in other words, according to IMF directives). He reviews many of the same arguments in his 2002 article, and adds that Brazil has a central bank governor implementing its inflation targeting policy who believes in orthodox monetary policies, and has a large primary surplus.[7]

Williamson's analysis considers 'success' to be any government policy that embraces and implements the Washington Consensus development paradigm. Equilibrium theory is an example of Gore's ahistorical macroeconomic performance analysis, based on a combination of market psychology and macroeconomic measurements that precludes any historical analysis of the country's insertion in the global capitalist system. Williamson's analysis appears directed at soothing the frayed nerves of investors in international financial markets. He also portrays Lula before the election as a politician moving to the right (conservative) end of the political spectrum to improve his electoral prospects by choosing a member of the domestic elite as his running mate and by stating that he will, if elected, protect the rights of creditors.

Fraga and Golfajn: 2002

Like Williamson, Brazil's own economists (Fraga and Goldfajn 2002) report that market pessimism is unfounded. They also try to soothe frayed neoliberal nerves based on similar ahistorical macroeconomic performance measures. They believe Brazil's public debt is sustainable, that the country's macroeconomic policies are sound, that the IMF loan of $30 billion (of August 2002) is justifiable, and that there has been clear support from Lula for the conditions of this loan. They review in detail all of the macroeconomic variables that Williamson did, including commenting on the same favourable conditions created by a sound banking system ('sound' in neoliberal terms means the level of non-performing loans is under control), a substantial primary surplus and a floating exchange rate.[8] Other economists, however, analyzing the same IMF loan package, are not as optimistic.

Weisbrot and Baker: 2002

Weisbrot and Baker (2002:1) directly challenge the above analysis. They consider it extremely unlikely that Brazil will reach a sustainable level of debt service and return to a normal growth path until a partial default allows the country to write off some of its debt burden. Weisbrot and Baker demonstrate that Brazil's debt rose from 29.2 percent of GDP in 1994 to nearly 62 percent by September 2002 and that real interest rates have averaged 16.1 percent for the last eight years (1994-2001). Based on this level of interest rate, they project that Brazil's deficit will continue to grow, adding to the next year's debt burden, which will ultimately becomes explosive (2002:1). Weisbrot and Baker blame high interest rates partially on the IMF, which encouraged Brazil to cling to its fixed exchange rate until 1999, when the currency collapsed and was allowed to float, and then demanded that Brazil maintain its high interest rates in wake of the devaluation in order to stem inflation (2002:4). Weisbrot and Baker conclude that "if the IMF cannot produce a credible intermediate or long-range projection under which Brazil could stabilize its debt service at a sustainable level, then the purpose of this $30 billion loan agreement is questionable" (2002:2).

While Williamson, Fraga and Goldfajn focus on market psychology, reinforcing an optimistic view based on the implementation of neoliberal economic reforms by Cardoso over the past eight years, Weisbrot and Baker use interest rates to project a different future, one of spiralling debt leading to default. They interpret socio-political limits, however, within the capacity of the state to implement or not the conditions established by the IMF. Agency is restricted to that of the state and institutional actors. Those outside these institutions are not represented as having any say in the matter.

Edmund Amann and Werner Baer: 2000, 2002 and 2003

Werner Baer is an economist who has written extensively on the Brazilian economy, industrialization, macroeconomic policies, the role of the state and privatization.[9] Three recent articles, written in collaboration with Edmund Amann, (2000, 2002 and 2003) focus on the limitations of the Brazilian state to effectively implement structural adjustment programs, which were required by the IMF, included taxing financial transactions and pension reform.[10] According to these two authors, Cardoso is to blame for failing to achieve these adjustments. In order to win support for a constitutional amendment he needed to run for a second term of office,[11] Amann and Baer (2000:1805) accuse Cardoso of offering concessions to Congress, thereby giving it more control over the timing and scale of these fiscal adjustments. This, they argue, defeated Cardoso's efforts to pass the required reforms, making him rely on temporary presidential decrees to meet the government's obligations to the IMF. In the absence of these reforms, the debt continues to grow. The public sector internal debt continues to rise rapidly, with a large proportion of domestic debt owned by foreign investment groups taking advantage of high interest rates and an overvalued, but stable, currency (Amann and Baer 2000:1813). Amann and Baer accept the Washington Consensus development paradigm without question. The actor at fault for not implementing the reforms is Cardoso, and the reason he failed was because he considered his political future more important than economic reform.

In their 2002 article, Amann and Baer review the consequences of neoliberal reform. They conclude that the Washington Consensus development paradigm of the 1990s led to slower growth in the 1990s than in the 1980s. They examine the distributional policies of neoliberal practices, and the "possibility of reconciling efficiency with equity" (Amman and Baer 2002:945).[12] They suggest the solution to this lies in the changing role of the state. They argue that the role of the state has changed from an active participant during the period of Import Substitution Industrialization (ISI) and state ownership of key industrial sectors, to a state in retreat during the neoliberal era of the Washington Consensus, and that now the state must become a regulator, balancing the interests of investors and consumers by "maintaining regulatory institutions free from capture from various interest groups" (Amann and Baer 2002:959). While apologetic about results to date, the writers believe it is "entirely possible that new foreign direct investments in productive capacity will begin to pay off" and that "resulting growth with greater equity should also someday result in greater mass participation in industrial capital ownership through funds representing the economically franchised masses" (Amann and Baer 2002:958-959).

In this 2002 article, Amann and Baer focus on the capacity of the state to become an effective regulatory body. This view is dependent on the state's ability, as an institution, to act in the common interest and avoid capture by any groups deemed to be acting only in self-interest.[13] Although they do not question the Washington Consensus and the norms of the LIEO on which it is based, success would be measured in terms of economic growth, leaving the more difficult task of defining the common good, vague. In terms of foreign investment and corporate ownership, it is unclear how they expect efficiency to translate into equity. In chapter three of this thesis, I examine in detail the oligopolistic nature of Brazil's corporate ownership structure. While democratization of ownership of Brazil's state-owned enterprises (through the sale of disbursed, or widely-owned, shares) may have been an objective of the government's privatization program in the 1990s, it was never implemented. How Amann and Baer think that this will occur after large, controlling blocs of shares were sold to a limited number of investors is unclear. Their argument, therefore, remains in the category of wishful thinking.

In their 2003 analysis of Brazil's currency devaluation, Amann and Baer suggest that the 1999 monetary crisis that resulted in the floatation and subsequent devaluation of the Brazilian currency, was due to the Cardoso administration's failure to recognize the short-term nature of the exchange rate anchor, when the Brazilian currency's value was tied to the American dollar. The exchange rate anchor was a central plank of Cardoso's Real Plan of 1994 (which was considered to have failed in 1999 when the exchange rate anchor was removed and the Brazilian currency was allowed to float). Amann and Bear consider the exchange rate anchor a useful tool in the short-term, but that in the long-term, it creates more problems then its solves, worsens the trade balance and current account balance, raises interest rates to draw in foreign capital to finance deficits, creating an unsustainable situation. In their view, long-term stability requires fiscal adjustment, de-indexation of the economy,[14] structural reform of the banking system (through the privatization of state-owned financial institutions), and the adoption of a credible inflation-targeting regime (Amann and Baer 2003:11). From Amann and Baer's perspective, long-term stability is an economic issue. Again, Amann and Baer blame Cardoso and his economic team for not implementing the right policy. In their view, fiscal restraint, not long-term use of monetary tools like a fixed exchange rate, is the solution.

Werner Baer: 2001

In Baer's (2001:258) review of the impacts of foreign investments in his book on the Brazilian economy, he observes that while exports by TNCs doubled from 1989 to 1999, their imports increased five fold. He suggests this trend may be due to the opening of the economy, which allowed TNCs to import their components from abroad, especially during the years of 1994 to 1999, when the exchange rate was overvalued. He also suggests that the development of the South American common market (Mercado Comun del Sul, or Mercosul)[15] had an important impact, citing trade between subsidiaries of TNCs within Mercosul (mainly between Argentina and Brazil) rising dramatically.[16]

Baer (2001:259) also identifies the dramatic increase of profit and dividends remitted to parent companies, growing from US $500 million in the early 1980s, to US $1 billion in the early 1990s, to U$7.3 billion in 1998, and how these remittances coincided and grew with the deficit. He also documents how the market participation from the point of view of sales by Brazil's largest 550 firms shifted, with sales by TNCs growing from 27.2 percent in 1984 to 36.3 percents in 1997. Foreign direct investment (FDI) also increased through mergers and acquisitions, with FDI growing from 19 percent in 1992 to 32.8 percent in 1996.

Baer (2001:260) concludes that the resurgence of FDI in the 1990s was due to Brazil's "return of general economic stability, the market-friendly neoliberal policies of the government, the massive drive towards privatization and the promise of an expanded Latin American common market, Mercosul." If there was a downside to this huge inflow of foreign capital, Baer claims that it enabled the government "to postpone a much-needed fiscal adjustment."

In his review of the privatization results of the 1990s, Baer (2001:289) observes that while foreign participation was small in the first half of the 1990s, (less then 1 percent of the total in 1994), this increased to 42.2 percent at the end of the 1998: "In 1998 alone, foreign investors were responsible for 59 percent of total proceeds." In terms of the wealth distribution effect of privatization, Baer (2001:290) claims that privatization of the 1990s was largely driven by the government's need to maximize its revenues from the sale of state-owned enterprises (SOEs) to the highest bidders, in order to relieve the fiscal stress. Therefore it was not surprising that most of the bidders were either foreign enterprises or the largest domestic firms. The parallel trend in major mergers and acquisitions, which rose from 58 in 1992, to 212 in 1995, and 351 in 1998 reinforced the oligopolistic tendencies of Brazilian corporate ownership. He claims these new partnerships between foreign and domestic investors were motivated in part by the need for private domestic firms to form strategic alliances large enough to make successful bids for enterprises that were being privatized.

With regard to the income distribution effects of privatization, Baer (2001:292) identifies efficiencies made through privatization by noting the huge reduction in employment in privatized SOEs[17] and by the large increase in remittance of profits (described above) realized by foreign firms that participated in the privatization process. He also admits that the impact on prices through changes made to the regulatory system to attract private operators to the telecommunications, electrical power generation, highways, railways and ports, also favoured the new private concession holders over consumers.[18] Baer (2001:294) concludes that the evidence suggest that the privatization program of the 1990s, "whose merits in terms of economic efficiency were undeniable, contributed little to change the distributional pattern, and may have even worsened it." Baer (2001:294) then warns the reader, "one cannot ignore the potential political and social consequences of this recent pattern of development."

Baer does not paint a rosy picture of foreign corporate ownership, and yet the downside he points out is the delay of more fiscal adjustment. His warning is the concluding sentence of his chapter, and so he does not elaborate further on these consequences. While I do not dispute his findings, chapter three of my thesis delves deeper into the consequences of these privatizations, and mergers and acquisitions, with power, rather than efficiency at the centre of the analysis.

Renato Baumann: 2002

According to Renato Baumann[19] (2002), if the 1980s was considered a lost decade for Latin America, then the 1990s is the decade of reforms. The focus of his collection of articles is on an economic analysis of growth, employment, and equity, with decidedly mixed reviews. The purpose of his analysis is focused on improving state capacity to better manage Brazil's development. In his view, the stabilization of the 1990s provided undeniable gains for lower-income groups by diminishing the volatility of their earnings, and gains have been even greater for groups with higher income and /or better qualifications, but, alas, there has been no improvement in the structure of income distribution (Baumann, 2002, xii).

While these writers (with the exception of Weisbrot and Baker) acknowledge the uneven, if not limited success of Cardoso's economic reforms, they want to see Lula's administration stay the course, and continue with reforms associated with the Washington Consensus development paradigm. They have an institutionalist view of the state, and consider state capacity and its ability to manage domestic economic adjustment as paramount. They accept the validity of the reforms, without questioning the underlying values/ideology that support them, and attribute failure to various culprits. Williamson blames jittery markets, while Weisbrot and Baker blame high interest rates. Amann and Baer blame the lack of fiscal adjustment, and in particular Cardoso, for Brazil's fiscal problems. All of these observers diagnose the problem as fiscal, which has led to the inability of the state to overcome its failing macroeconomic performance. Baumann (2002:31) blames the state for not following "the ideal sequencing for these reforms, and inadequate signalling to economic agents."[20] These writers all measure success and failure based on their analysis of macroeconomic factors, and the capacity of the state to implement the right (read: orthodox) economic policy, at the right time and the right way. Their understanding of capital as a neutral force, however, does not address underlying relations of power between state and capital. Such an understanding limits their analysis to short-term change, and does not provide any insight into the class struggle associated with the implementation of the Washington Consensus development paradigm, other than vague hopes for its continuation, and even vaguer warnings, if it does not succeed.

Writers opposed to the Washington Consensus development paradigm

John Weeks: 1995

John Weeks (1995) argues the Washington Consensus, which tells a 'story' that ISI failed and 'free' markets work, is not supported by the evidence. Weeks (1995:111-113) argues that the economic shocks of the 1970s and 1980s led international lending agencies, such as the World Bank, to shift its priorities from poverty alleviation to debt servicing, which requires current account surpluses to be achieved through import reduction and export expansion. Pressure to accept the policies needed to support debt servicing required Latin American governments to accept the underlying ideology of neoliberalism. The lead role of promoting the "free market" adjustment packages was assumed by the policy-based lending practices of the IMF and WB, which made loans conditional on policy reform (Weeks 1995:113-114). Weeks (1995:115) suggests that unlike project-based lending of the past, this type of lending creates no assets, it is just a method of generating foreign exchange to service debt, which then adds to the borrower's debt burden.

While rising exports are supposed to provide the foreign exchange needed to service the growing debt, Weeks (1995:128-130) points out that economic growth in the 1990s remained low, a problem the neoliberal model for development was suppose to address. He then outlines the policies of privatization, liberalization of trade and finance, as well as high interest rates and exchange rate policies that reduce the role of the central banks and focus on preventing capital flight, leaving the Latin American state impotent in making economic policy (Weeks 1995:131). While not supporting the IMF and WB agenda of the Washington Consensus, it is the centre of his analysis. His critique is based on the transfer of wealth from the poor to the rich, as governments assume public debts that are serviced by interest payments paid for with taxes or with cuts in health, education and other public services. The analysis is focused on the lack of state capacity to either resist adopting the international normative framework of the LIEO, or to implement economic policy in its own national interest.

James Cypher: 1998

James Cypher (1998), predicts the "slow death" of the Washington Consensus in Latin America by analyzing the myth that inflows of foreign capital would make up for savings shortfall and would energize the economy through renewed investment, with the implicit assumption that all capital flows are equally good. Cypher (1998:49) identifies three types of capital. The first is FDI invested in capital-intensive industry (such as mining, energy, forestry, agriculture), which in his view entails heavy environmental costs and creates few jobs. The second is speculative funds, portfolio funds flowing into real estate, banks and stock brokerage firms that create fortunes for only a select few. The third is "hot money,"[21] invested in countries that keep "their interest rates high, thereby starving national firms of financial support and undercutting the efficacy of the public sector, which is thereby forced to relinquish an increased share of its tax revenues to wealthy owners of the national debt, who enjoy exorbitant interest payments." Cypher (1998:50) predicts that the threat of constant crisis created by the "volatile and perverse whims of the global financial markets" will somehow "turn the economic screws further into the crumbling neoliberal Washington Consensus." This is an economistic analysis, which analyzes types of capital from a narrow perspective, filtering out any explanatory socio-political factors, leaving those opposed to these reforms with the hope that one more economic crisis in the international financial markets will hammer the last nail into the neoliberal coffin.

Geisa Maria Rocha: 1994

In to the literature on the political economy of Brazil, Geisa Maria Rocha (1994, 2002) and Alfredo Saad-Filho (1998, 2003 and with Morais 1999, and with Mollo 2002) provide of the most in-depth analysis in English of the Brazilian experience from a dependency theory and from a Marxist perspective. Rocha (1994) argues that the dominant liberal neoclassical/ modernization paradigm of the 1950s and 60s has reappeared in the guise of neoliberalism in the 1980s and 1990s, and that any growth strategy based primarily on external capital pays heavy economic, political and social costs. Rocha (1994:72-73) argues that Brazil's neoliberal experiment is leading to a new reliance on the external flows of capital, leading to extreme social and economic inequalities, perpetual financial dependence, monopolization, denationalization and deindustrialization, and that the policy reforms reflecting this experiment serve only to 'perfect' dependent development. Rocha links these policies directly to the World Bank's agenda, when she quotes one of their policy documents (World Bank 1985:69 in Rocha 1994:72), which identifies the need for developing countries to have economic policies that support capital inflows, with key goals being "government's efficiency and its political strength to resist interest groups that oppose policy changes."

Rocha (1994:72) uses dependency theory as a framework to explain the outcomes of these neoliberal policy reforms. Her focus is the beneficiaries of these neoliberal policies, whom she believes are the "internationalized" local elites and international bourgeoisie. Following Cardoso and Faletto (1979) and Evans (1979), she reminds us that dependency theory recognized that the 'conquering' bourgeoisie of the colonial period have been replaced by a power bloc that includes the state, international capital and elite local capital, and that the dependency of the local bourgeoisie as a class on the state and international capital has been a central feature of Brazil's industrial transformation.

Rocha (1994:77-81) reviews the history of Brazil's increasing reliance on external capital flows, beginning with the military regime (1964-1984), and the policy the state used to attract foreign investment, but focuses on the Collor administration (1990-1992), and how it rapidly advanced the interests of foreign capital and local internationalized elites by adopting the Washington Consensus. Rocha (1994:84) accuses the Collor government of using state enterprises as a major instrument of private accumulation by virtually donating them to the private sector through debt-equity swaps. As Rocha (1994:85) explains, the swaps allowed investors to buy government debt at a low (discounted) market price, which the government then accepted at close to face value for equity in the privatized enterprise.[22] Eighty-one percent of the proceeds from these sales were collected by using debt/equity swaps.[23] As a result, almost no new money was received by the state for the sale of 13 state enterprises in 1991 and 1992 (Rocha 1994:87).

According to Rocha (1994:88-91), the privatization and liberalization of the economy met with the overwhelming support of elite local capital. The Collor administration launched a program to assist elite local and international capital. [24] The state-owned development bank (BNDES),[25] established a credit line to finance TNCs, and also provided sizeable loans to a few large domestic conglomerates to promote joint ventures that would enable them to compete in international markets, further concentrating economic power in the hands of a few powerful local elites. She concludes her argument by stating that the structural reforms of the Collor administration "serve the interests of foreign capital and thus the resurrection of dependent development" (Rocha 1994:93).

While Rocha does an excellent job reporting what happened during the privatization program, and correctly links the privatization to Cardoso's theory of dependent development, she does not make any distinction between the interests of domestic capital and foreign capital, following Cardoso's own limited view, that the role of the national bourgeoisie was limited to internalizing external interests. My own analysis does not challenge her findings, but provides a different lens through which to view the consequences of Collor's privatization program. As Saad-Filho's critique below indicates, she also looks at the privatization program in isolation of other economic factors (interest rates, inflation, etc).

Alfredo Saad-Filho: 1998

In his critique of Rocha's 1994 article, Alfredo Saad-Filho (1998:193) argues that privatization needs to be understood in the larger context of the fiscal crisis of the state. Saad-Filho (1998:193) argues that privatization and other mechanisms of transferring wealth to support private accumulation need to be understood in terms of the economic role of the state, which he claims is to provide the basic framework for capitalist accumulation. Saad-Filho also follows Peter Evan's (1979) concept of the triple alliance between the state, domestic capital and foreign capital, and identifies a major shift from an alliance between the state and domestic capital in support of a national development strategy, to an alliance between foreign and domestic capital. He suggests domestic capital decided to ally itself with international capital because the state had become an increasingly unreliable partner due to an unbridled growth of corruption and the state's growing fiscal crisis.

Saad-Filho (1998:194-195) claims that while privatization is one way of supporting private accumulation, it cannot be fully understood without examining other mechanisms such as high interests rates and inflation. In this article he focuses on the negative distributional effects of high interest rates, and how they have been a powerful mechanism in transferring wealth from the poor to the rich and from industrial to financial capital.

Saad-Filho (1998:195) identifies how orthodox monetary policies tend to neutralize the effects of orthodox fiscal policies, as cuts in government spending are overwhelmed by large debts brought about by high interest rates. While high interest rates have attracted foreign investment and helped support an over-valued exchange rate, they have also led to the deterioration of the current account and the need for further capital inflows. He also identifies how speculative foreign capital has become a substitute for the export and import of goods and services, and a mechanism for transferring value produced in Brazil to owners of speculative capital via the tax system (as the government uses taxes to service the debt). The result is a continuous deterioration of government finances, increasing dependence of real accumulation on the whim of foreign and domestic financial markets, and increasing concentration of income.

Saad-Filho's critique of Rocha is insightful, however, reducing the role of the state to providing an economic framework leads to a separation of economics and politics. The analysis emphasizes the function of the state, rather than the nature of the state as a moment in the social relations of production, and therefore of the class struggle involved in constructing hegemony. This analysis does not identify the role hegemony plays in providing the state with the capacity to implement the basic framework of capital accumulation. I discuss this in detail in chapter two of my thesis, and the consequences of Cardoso's failure to construct hegemony to support his development model, and therefore the state's economic role, in chapter four of my thesis.

Morais and Saad-Filho 1999 and Saad-Filho and Mollo 2002

In articles in 1999 and 2002, Saad-Filho and his colleagues further investigate the negative distributional effects of inflation, high interest rates, privatization and financial liberalization in Brazil. Their's is a Marxist analysis, built on a radical monetary theory and the hypothesis that money is endogenous and non-neutral. Their analysis argues that inflation is caused by internal factors, such as distributional conflicts and widespread indexation of prices and incomes, rather than neoclassical explanations that blame external factors such as large and persistent fiscal deficits (Saad-Filho and Mollo 2002:110).

In their analysis of Brazil's currency stabilization plan, the Real Plan, implemented by Cardoso when he became president in 1994, Morais and Saad-Filho (1999:9) claim that the Real Plan was designed to work by attracting foreign capital with high interest rates, a proposal based on "neoliberal fundamentalist prescription that countries should 'liberalize, privatize, cut government spending and show the world your commitment to liberal principles,'" a prescription based on the LEIO and the Washington Consensus development paradigm. While the purpose of the plan was to eliminate inflation, it did so with policy instruments that would promote investor confidence and attract foreign capital to finance Brazil's current account deficit, rather than with policies that would reduce distributional conflicts. Although the plan was successful at eliminating inflation,[26] the costs were high, resulting in explosive growth of the domestic public debt (due to high domestic interest rates), cumulative deindustrialization and rising unemployment.

According to Morais and Saad-Filho (1999:9), Cardoso's Real Plan exhibited a fundamental contradiction between orthodox fiscal policy (fiscal austerity and privatization) and orthodox monetary policy (high interest rates). Morais and Saad-Filho (1999:13) conclude that "rather than recognizing that the devaluation of the Real demonstrated the failure of the attempt to stabilize the economy based on unstable foreign capital flows, the Brazilian government strengthened its commitment to the IMF-Wall Street-US Treasury complex."[27]

In their 2002 analysis of inflation and stabilization in Brazil, Saad-Filho and Mollo (2002:110) delve deeper into the factors that create distributive conflicts, which in his view are the main cause of inflation, and why the failure to address these conflicts made the Real Plan limited and fragile. From Saad-Filho and Mollos's (2002:111) Marxist perspective, conflict inflation occurs when social groups, such as large firms (industrial capital), organized labour and financial capital compete using higher prices, higher wages and high interest rates, which increase costs across the economy and spark conflict between social groups. They trace the history of conflict inflation during the period of ISI (1930 to 1980), and how these conflicts largely developed through the indexation of prices and incomes (Saad-Filho and Mollo 2002:115-116). They describe several government attempts to implement "heterodox shock," [28] stabilization plans designed to reduce inflation through the de-indexation of prices and wages (Saad-Filho and Mollo 2002:117-119).[29] As several of these plans failed, the heterodox elements were gradually replaced with more orthodox, IMF-style, fiscal and monetary policies.

The Real Plan, introduced in 1994 (and effectively ending when the currency was allowed to float in 1999), was initially successful because it shifted and repressed the distributive conflict and reduced the creation of extra money[30] (Saad-Filho and Mollo 2002:123-124). It accomplished this by de-indexing the economy while at the same time liberalizing trade and international capital transactions.[31] In the short-term, the Real Plan was very successful and popular. It eliminated inflation while retaining real wages, contributing to the decline in the number of people living in absolute poverty (Saad-Filho and Mollo 2002:125-126).[32]

Saad-Filho and Mollo (2002:127-128) claim capital account liberalization, high interest rates, and the large domestic market attracted large capital inflows of portfolio investment and foreign direct investment, and while having a positive impact on the balance of payments, these conditions also lead to foreign takeovers of domestic banks and manufacturing companies. The rapid liberalization of trade and finance in the mid-1990s triggered a round of concentration and centralization of capital, especially through a wave of bankruptcies and acquisitions. This was an important cause of rising unemployment in this period, which was supported by the Cardoso government both politically and financially, arguing that it would reinforce Brazil's international competitiveness.

Saad-Filho and Mollo (2002:129-130) also claim that high unemployment has been used to repress distributive conflicts, reducing the bargaining power of workers and that permanently high interest rates and liberalization of international trade and capital flows have become obstacles to the translation of lower inflation into sustained welfare gains for the majority. Rising trade and current account deficits, increasing unemployment and poverty, the concentration of income after 1996, and the increasing centralization of economic power have eroded support for the Real Plan.

Saad-Filho and Mollo (2002:131) conclude their argument by claiming that in spite of the government's claims to the contrary, the successful de-indexation of the economy should have been followed by policies that supported a competitive exchange rate rather than an over-valued one, strict limits on short-term capital flows, and industrial and regional policies leading to higher employment levels, as well as tax and land reforms to reduce income inequalities – policies that reduce, rather than suppress distributional conflicts, improve macroeconomic stability in the long-term and help build a more inclusive society. However, "the ideological climate in Brazil and elsewhere has prevented this option from being considered seriously. Instead neoliberal policies have been imposed by force, then justified by their purported inevitability"(Saad-Filho and Mollo 2002:131).

Saad-Filho and his colleagues do an excellent job explaining the distributional conflicts from a Marxist perspective, as well as how inflation, stabilization, liberalization of trade and capital accounts, privatizations and acquisitions are linked. It is an analysis that I rely on in chapter three of my thesis, so that foreign ownership of the industrial structure is seen in context with other economic and political factors. However, their analysis is focused on state capacity and the state's commitment to the "IMF-Wall Street-US Treasury complex," the institutions that enforce compliance with the Washington Consensus development paradigm. Solutions are presented as replacing one set of economic policies with another, separating again economic factors from political ones.

Geisa Maria Rocha: 2002

In 2002, Geisa Maria Rocha published another article on the privatization activities of the Cardoso government, reconfirming her 1994 diagnosis of the resurrection of dependent development in Brazil. She covers much of the same territory as Saad-Filho, in terms of her examination of the Real Plan and its impacts, as well as the repeated external shocks to the Brazilian economy, first from the Mexican peso crisis, then the Asian and Russian crises, leading to the floatation and devaluation of the Real in 1999. However, rather than building her case on a rigorous Marxist theoretical framework, her approach is that of a reporter, chronicling the policy response of the Cardoso government and documenting their macroeconomic impacts to support her thesis that the root cause of dependency in Brazil is the development strategy Cardoso adopted during his two terms as president. She argues that it is his policy strategy that led to the extreme vulnerability of the Brazilian economy and to its grave financial crisis, which she suggests is the "fruit of eight years of Cardoso's ultra-neoliberal mismanagement of the economy"(Rocha 2002:18). My own analysis does not disagree with hers, however, rather than just reviewing the economic consequences of Cardoso's neoliberal reforms (which I do in chapter three, and therefore do not summarize here), I also examine the structures and institutions that supported his administration, that both enabled him to implement his development model, and led to his electoral downfall.

Saad-Filho: 2003

In his examination of the political economy of Lula's election, Saad-Filho (2003) examines the transformation of the Brazilian economy and argues that Brazil's problem lies with its system of accumulation,[33] which has changed from ISI to what he calls 'new liberalism'. In this article, Saad-Filho (2003:4) admits to focusing on macroeconomic policies and constraints, rather than shifting alliances and movements on the ground, "because the limits and potential achievements of the new administration will be determined by macroeconomic constraints, more than any other factor." I do not agree with Saad-Filho on this point, and in chapter four of my analysis I focus on the shifting alliances and movements on the ground in terms of the construction of hegemony and historic blocs that underpin a system of accumulation.

Saad-Filho (2003:7-9) argues that it is the elites[34] of Brazil who demanded a new system of accumulation, because the ISI system was supported by a weak financial system that was unable to fulfill the needs of the manufacturing sector, and a weak, disarticulated state that pursued activist industrial policies without an adequate system of taxation to support it. The new system, 'new liberalism,'[35] is characterized by neoliberal policies, microeconomic integration of domestic and foreign capital, a developed role for finance in economic policymaking (through orthodox monetary and fiscal policy) justified under a normative agreement (LIEO), the imperative of globalization, and there being no alternative. A hard-fought election between Collor and Lula in 1989[36] set the direction of economic policy towards neoliberalism (Saad-Filho 2003:10).

Saad-Filho (2003:15) explains Lula's victory at the polls in 2002 as part of the shift towards nationalism and the left across South America due to the exhaustion of the neoliberal experiences, growing tension between political democracy, deep economic and social cleavages, and a more skeptical view of the United States. He explains Lula's success as a combination of smart politics, promising little and giving his enemies little ammunition with which to attack him. He also attributes his success to the coalition he was able to establish with the right wing liberal party, which Saad-Filho (2003:17) describes as "stalwarts of neoliberalism and the political arm of the evangelical church, which helped to neutralize the "traditionally rabid opposition of the religious right." Lula chose Jose Alencar, leader of the nationalist wing of the manufacturing elite, as his vice-president, which helped to attract large donations from domestic productive capital. In return Lula promised to implement the agreements with the IMF by meeting their demanding fiscal targets and to respect contracts and property right.

Whether Lula will be more successful than Cardoso in his efforts to govern Brazil, Saad-Filho (2003:17) believes that it depends on the political choices of Lula and the PT, and on objective constraints, "especially the strength of the Brazilian economy and the correlations of forces underpinning the new administration." In his opinion, the deconstruction of the power bloc that controls the Brazilian state depends on the growth and strength of the left, rather than the will of the president. Therefore, the left must be careful. Social movements need to remain outside the government and the left must ensure that it neither becomes co-opted or captured by the state, nor becomes its hostage (Saad-Filho 2003:19).

Saad-Filho (2003:19) concludes that the key issue facing Lula is that he has never identified new liberalism, and its system of accumulation, as the problem, nor has he committed to rejecting any of it component parts. In Saad-Filho's (2003:20) view, it is new liberalism that has offered Brazilians an inconsistent and socially undesirable development strategy. It has deepened Brazil's external dependence at the microeconomic level by shifting the engine of growth towards an unreliable combination of externally financed consumption and investment in non-traded goods (such as electricity, telecommunications and infrastructure): "In sum, the poor performance of the Brazilian economy is due to internal and external causes, but increasingly it is the outcome of the attempt to implement an accumulation strategy that can be stable only exceptionally."

There are many points in Saad-Filho's analysis that I would agree with, but it is a highly political treatment. It separates the political from the economic, the external from the internal and is precisely the form of analysis that my own analysis will attempt to overcome in chapter four.

Conclusion

Like those in support of the Washington Consensus development paradigm, those opposed also have institutionalist views of the state and consider state capacity to change policy direction as paramount. These observers, however, do not limit their view of crisis in Brazil to a fiscal one. They also view it as a monetary and as a political one. My own analysis will demonstrate a deeper, structural crisis of hegemony. They attribute the failure of this paradigm to a shift in international lending practices from poverty alleviation to debt servicing

(Weeks 1995) and to a dependency on external capital flows (Cypher 1998; Rocha 1994) combined with a failure of both the Collor and Cardoso's administrations (Rocha 1994, 2002). While not denying Rocha's observation, Saad-Filho attributes the failure of these neoliberal economic reforms to more than just the negative distributional effects of privatization, but also to high interest rates (Saad-Filho 1999), inflation (Saad-Filho et al.1999) and stabilization plans (Saad-Filho 2002). While he agrees with Rocha that the insertion of Brazil into the international economy has resulted in the concentration and centralization of the economy in the hands of international capital, at the expense of both domestic bourgeoisie and the country as a whole, Saad-Filho (2003) believes it is Lula's ongoing commitment to the ideology of the Washington Consensus development paradigm that does not bode well for the future of his administration.

This review of this literature indicates that both sides of the debate on the success or failure of these neoliberal economic reforms have been dominated and analytically limited by the WB/IMF agenda and their Washington Consensus development paradigm. Those who oppose the agenda have also narrowly focused their analysis on the WB/IMF as institutions and mechanisms of capitalist domination. This has had the effect of focusing on the state's capacity to either implement these policies or to change course by adopting policy alternatives, thereby locating the state at the centre of the analysis. The examination of macroeconomic constraints, while useful in determining the failure of these reforms (for which those in favour apologize, still believing these reforms will succeed if given sufficient time and the right approach) is insufficient when trying to understand the sociopolitical limits of such a development strategy. In chapter two of my thesis I present the theoretical framework I will use to overcome these limitations.

Notes

[1] John Williamson, 1990. Latin American adjustment: how much has happened? *Institute for International economics,* Washington D.C.

[2] The neoclassical school of thought is characterized by microeconomic theoretical systems constructed to explore conditions of static equilibrium. Models are based around maximizing behaviour of individual firms and consumers (*The Penguin Dictionary of Economics*, 6th ed. 1998:295)

[3] Equilibrium is a situation in which forces that determine the behavior of a variable are in balance and therefore exert no pressure on that variable to change (*The Penguin Dictionary of Economics*, 6th ed. 1998:131).

[4] In Williamson's article (2002: 4), the consolidated net debt of the Brazilian public sector as of June 2002 was 58.6 percent of GDP (source: Banco Central do Brazil). This ratio is used to compare the level of debt to economic growth as a measure of sustainability (that is, if there is enough income to sustain debt servicing payments). Export earnings is also an important consideration in terms of economic growth.

[5] "Fundamentals" includes debt stock (private and public sector external and domestic debt) and other variables such as growth rate, inflation, primary fiscal surplus and non-interest current account balance. See Williamson 2002:3.

[6] Balance of payments is divided into two broad groups. The *current account* includes trade in goods (net of exports and imports), services and income transfers (net transfer of profits and interest on overseas assets). The *capital account* includes inward and outward flows of money on investments and international grants and loans (*The Penguin Dictionary of Economics*, 6th ed. 1998: 16-19).

[7] The orthodox view of money holds that it is primarily a medium of exchange that facilitates circulation of goods either domestically or internationally. Accordingly, domestic monetary policy should be concerned primarily with control over the money supply in order to minimize inflation, and an international monetary policy should be devoted to the maintenance of freely floating exchange rates. Flexible exchange rates are said to permit the independence of domestic policy, and ensure rapid adjustment of international balance sheets to equilibrium (Wray 1999:171)

[8] A primary surplus is government expenditures before accounting for interest rate payments. An exchange rate anchor tied the value of Brazilian currency, the real, to the value of the American dollar, to keep the value of it stable. When it was removed, the real was allowed to "float," relying on buyers and sellers in

the foreign exchange markets to determine its value, based on supply and demand (*The Penguin Dictionary of Economics*, 6th ed. 1998: 142-143).

[9] See Baer's 5th edition (2001). See also Cardoso and Helwege (1992) for a basic textbook that lays out competing perspectives on the major macroeconomic constraints facing Latin American countries.

[10] The November 1998 package put together by the IMF, WB and US government required increasing the tax on financial transactions from 0.3 percent to 0.37 percent, increasing pension contributions from the salaries of active public servants, having retired civil servants pay tax on their pensions, and raising the retirement age. Congress, however, rejected Cardoso's pension reform proposals (Amman and Baer 2000:1817 and note 29:1819).

[11] The Brazilian constitution of 1988 restricted the president to one four year term in office.

[12] "Efficiency with equity" is similar to Linda Weiss' (1998: 5-13) concept of "growth with equity." Weiss' concept refers to developmental and distributive capacities of states, a combination she recognizes as uncommon, but believes is achievable, based on her analysis of the German and Japanese economies.

[13] A political institution is a set of contextual features in a collective setting that defines constraints on, and opportunities for, individual behaviour in the setting. Contextual features are those that proscribe as well as prescribe individual behaviour during processes of collective choice. This definition is from D. Diermeier and K. Krehbiel, 2003. Institutions as a methodology. *Journal of theoretical politics,* 15 (2), 123-144. (Diermeier and Krehbiel 2003:125)

[14] Indexation is used to avoid the erosion of real value through inflation. It is the automatic linkage between monetary obligations and the price level. It can be applied to wages, prices, or government tax charges (such as interest rates). While it reduces the cost of inflation, some economists argue that it also increases inflationary expectations and make it harder to reduce inflation. (*The Penguin Dictionary of Economics*, 6th ed. 1998:199-200)

[15] Mercosur is the acronym in Spanish, Mercosul in Portuguese. It is the regional trade integration agreement among countries of the Southern cone (Brazil, Argentina, Uruguay and Paraguay) that came into being in 1990.

[16] Brazilian exports going to subsidiaries in Mercosul rose from 2.5 percent to 32.3 percent, while imports from subsidiaries rose from 6.2 percent to 14.4 percent (Baer 2001:258).

[17] According to Baer (2001:292), employment in the Federal Railroad System (RFFSA), was reduced by about half in preparation for privatization, and then reduced to 11,500 once in the hands of private operators, while actually increasing the level of services. In major public ports, the number of workers employed was reduced from 26,400 in 1995 to about 5,000 in 1997. In the steel sector the number of employees in the Companhia Siderugica Nacional fell from 24,463 in 1989 to 9,929 in 1998; in Cosipa from 14,445 to 6,983; and in Usiminas from 14,600 to 8,338.

[18] According to Baer (2001:293), in the City or Rio de Janeiro, while the Consumer Price Index rose by 87.4 percent between August 1994 and November 1999, the price index for public services rose 163.2 percent.

[19] Baumann is the Director of the Economic Commission for Latin America and the Caribbean (ECLAC).

[20] The IMF gives similar reasons for the failure of these economic reforms in developing countries. See Anjaria, Shailendra J. "The Capital Truth." Foreign Affairs, Nov/Dec 1998:142-143.

[21] 'Hot money' is funds that flow into a country to take advantage of favourable expected rates of return. (The rate of return is determined by interests rate and exchange rate.) As they flow in, these funds influence the balance of payments and strengthen the currency of the recipient country. These funds are highly volatile and can shift quickly to another foreign exchange market when relative returns favour such a move (*The Penguin Dictionary of Economics*, 6th ed. 1998:189).

[22] For example, the debentures of Siderbras could be purchased in the market at a 50 percent discount and were accepted at the auctions and swapped for equity in a privatized firm at face value. Privatization certificates had a discount of 40 percent in the market, and government agrarian debt papers could be purchased in the market at only 5 percent and 10 percent of their face value (Rocha 1994:89). This was a main feature of the Programa Nacional de Desestatizacao, made Law 8031 in April of 1990.

[23] See Privatizations in Brazil 1990-1994/1995-2002. *BNDES* www.bndes.gov.br/english/studies/priv_brazil.pdf [accesses 15 April 2004]

[24] The Industrial Competitiveness Program was launched in February 1991.

[25] National Bank of Economic and Social Development (BNDES).

[26] Brazilian inflation had increased gradually since the early 1970s from around 20 percent in 1972 to an annualized peak of more than 5,000 percent in mid 1994 (Saad-Filho et.al.1999, p10).

[27] The reference to the "IMF-Wall Street-US Treasury complex" is from Peter Gowan (1999). In January 1999, after five months of speculation and loss of reserves worth US$40 billion, the Brazilian central bank allowed the Real to float, and the currency lost almost half of its value (Saad-Filho et.al.1999, p13).

[28] Heterodox programs are based on a combination of income policy, fiscal correction, and monetary reform. In contrast to IMF programs that emphasize tight money policy (through high interest rates) and fiscal correction as the main instruments of stabilization, heterodox programs do not believe aggregate demand discipline (reduction of fiscal deficits), although important, is enough for stability. To break the cycle of inertial inflation, active government intervention is necessary to settle the struggle between workers and firms over relative share of national income (through wage and price controls) to create stability and lower unemployment. These programs also call for monetary growth to avoid raising real interest rates, often introducing new denominations (Cardoso and Helwege 1992:188-189).

[29] See Saad-Filho 2002:117 note 16 for a more complete list. The most important heterodox stabilization plans in Brazil were the Cruzado Plan (1986), the Bresser Plan (1987), the Summer Plan (1989), Collor I (1990) and Collor II (1991) (see Saad-Filho 2002:118 note 18). A heterodox shock strategy involves the simultaneous freeing of prices and wages at their average level and the abolition of indexation as well as changes in contracted interest rates to reflect the expected decline in inflation.

[30] The theory of extra- money inflation argues that circumstances intrinsic to the circuit of capital regularly create discrepancies between the values produced and the supply of (credit and fiat) money. It can be created in a number of different ways, for example, when a commercial banking system refinances what it knows to be irretrievable debts. It shifts the relationship between the value of outputs and circulating money, and therefore increases the nominal national income relative to what it would have been otherwise. Unlike the quantitative theory of money, extra-money is never neutral. It cannot be controlled or even known by the state (see Saad-Filho 2002:112).

[31] Unlike past heterodox attempts to de-index the economy, the Real plan first introduced a transitory monetary system the URV (*unidade real de valor*, or real value unit), a unit of account linked to the US dollar, that helped to stabilize real wages and key prices in the economy, preventing the decline of real wages in the economy, which were linked to the URV, in spite of high inflation in the old currency. The URV provided the anchor needed for a new price system to emerge without distortion introduced by inflation. After the new price system was established, the new currency, the *real* was introduced.

Trade liberalization lowered tariffs and made cheap imported consumer good widely available, as well as enabling the import of cheaper capital goods, which helped foster investment and productivity increases in some industry sectors and promote employment. Competitive pressures from foreign companies initially reduced the monopoly power of large domestic firms in key industrial sectors, which helped to reduce costs and repress distributional conflicts. High interest rates attracted large, short-term capital inflows, which also raised the value of the new currency.

[32] The number pf people living in absolute poverty declined by 12.5 million people between 1990 and 1996 (Saad-Filho 2002:126).

[33] Saad-Filho (2003:7, note 3) defines a system of accumulation as being determined by economic structures and institutional arrangements that characterize the process of capital accumulation in a specific region at a specific time.

[34] Saad-Filho (2003:8 note 7) defines elites as large and medium sized capitalists, especially industrialists of the South East, exporters, large traders, media bosses, large landowners, local political chiefs and top civil service, in order to transcend what he considers to be the less important contrast between domestic and foreign capital and industrial and financial capital.

[35] 'Old liberalism' is characterized by the oligarchic hegemony of the coffee sector, foreign ownership of key industries, lack of support for the newly developing manufacturing sector and economic exclusion, within a democracy (Saad-Filho 2003:7 note 4)

[36] Collor won the election with 53 percent of the vote, with Lula winning 47 percent of the vote (Saad-Filho (2003:10).

Chapter 2: Theoretical and Analytical Framework

Introduction

In chapter one, I reviewed the literature on Brazil's development over the last decade and argued that while observers identified the basic trends through which capitalist expansion occurred during the eight years Fernando Henrique Cardoso was president (1995-2002), the acceptance of the state/market dichotomy and its focus on the state's capacity to implement (or not) the Washington Consensus development paradigm analytically limited the debate. As a result, the socio-political limits of neoliberal capitalist expansion have not been explored, other than to express support or rejection of this paradigm.

The election of Lula offers the opportunity to explore the limits of neoliberal capitalist expansion, and specifically the limits of foreign corporate ownership, as an expression of class struggle. Such an analysis requires a theoretical framework that embraces four interconnected levels of analysis, the economic and the political, as well as the national (internal) and the international (external). In other words, it requires an analysis that focuses on the imperatives of the global economy and the constraints of class struggle. In this chapter, I argue that to analyze the limits of neoliberal forms of capital accumulation in Brazil in the 1990s, an historical materialist framework is needed that understands the state and models of development as moments in the social relations of production, and which includes a Gramscian understanding of hegemony, historic bloc and the state to bridge the political and the economic, as well as external and internal factors.

In their analysis of dependency and development in Latin America, Cardoso and Faletto (1979) employ this theoretical framework. They also use an analytical framework, historical-structural analysis, to examine patterns of corporate ownership that emerged in Brazil in the 1960s and 1970s. Their analysis and diagnosis of dependency in the form of dependent development is relevant to my analysis of Brazil's development in the 1990s, because, as my analysis will reveal, when Cardoso became president he reproduced this form of development under the guise of the Washington Consensus development paradigm. An examination of Cardoso's intellectual tradition is important to understanding the contradictions inherent in his practice as a politician.

In this chapter, I first review the literature known as dependency theory, in order to situate the work of Cardoso and Faletto within the context of these debates. I examine how Cardoso and Faletto's understanding of capital and class fit within Marx's framework of historical materialism, and how they included Gramsci's concepts of hegemony, historic bloc and the state in their analysis. I also explain their methodology of historical-structural analysis and the role TNCs play within this approach, which I use in my own analysis of the historical dimensions of foreign corporate ownership in Brazil. I then examine their thesis of dependent development, and the emerging contradiction between Cardoso the theoretician of dependent development and Cardoso the politician, and why this is relevant to my analysis of the current situation in Brazil.

My analysis, however, cannot rely solely on a Marxist/Gramscian framework used by Cardoso and Faletto. In the 1990s, the privatization of state enterprises and a development paradigm that focuses on attracting large amounts of foreign investment has made the transfer of ownership of industrial assets from the state and domestic capital to foreign capital a key perspective from which to analyze the socio-political limits of neoliberal forms of capitalist expansion. Therefore, to understand the full implications of this form of development, I add to my analytical framework a methodology developed by Jonathan Nitzan (1998, 2001; Jonathan Nitzan and Shimshon Bichler, 2002; Bichler and Nitzan 2003). I place Nitzan's concept of power at the centre of this analysis as the underlying purpose behind corporate acquisition, rather than the neutral purpose of reallocation of resources for increased profit, assumed by neoclassical economists (such as Baer 2001). This methodology brings to my analysis an understanding of the strategic nature of capital accumulation in the sphere of competition, and how capitalists use the power of capital ownership to affect social change.

Situating Cardoso and Faletto's approach within Latin American theories of dependency

During the 1950s and 1960s in Latin America, two important theories arose as critiques of development theory of that period. Structuralism emerged in the 1950s as a critique of neoclassical economics, and dependency emerged in the 1960s as a critique of modernization theory (Kay 1989:2). Beginning in the 1950s, economists and sociologists from western industrialized countries promoted neoclassical economics and modernization theory as universally applicable approaches. Neoclassical economists favoured the interests of foreign capital, and provided a rationale for the continuation of the international division of labour by suggesting that specialization and comparative advantage through the promotion of primary exports (agricultural products and natural resources) would eventually lead to the development of underdeveloped economies (Kay 1989:4). These economists took the position that international trade and foreign investment would not only provide the engine of growth but would be a factor in reducing inequalities in the standard of living between industrialized and developing countries (Kay 1989:9). Modernization theorists such as W.W. Rostow (1960) proposed that developing countries would advance through the same stages of growth as western countries, and sociologists such as Talcott Parson (1964) argued that traditional societies in developing countries would evolve according to identifiable patterns of development into modern societies.[1] As Colin Leys (1996:7) explains, "the goal of development was growth; the agent of development was the state and the means of development were these macroeconomic policy instruments. These were taken-for-granted presuppositions of 'development' theory as it evolved from the 1950s onwards."

Structuralism

Beginning in the 1950s, Latin American theorists argued that neoclassical economics and modernization theory presented an idealized simplification of the history of western industrialized countries; that developing countries had different structural characteristics and historical experiences, and their insertion into the international economic system was unique. Structuralists (beginning with Raul Prebish in 1949, who was Director of the Economic Commission on Latin America, or ECLA) argued that the neoclassical focus on comparative advantages of cheap raw materials and labour caused developing countries to suffer from a decline in the terms of trade (the gap between the cost of exporting primary products and importing manufactured goods).[2] Structuralists identified how advanced industrialized countries capture economic surplus from developing countries through payments of interest, royalties, technology rents and services, and the remittance of profits and dividends from branch plants to head offices (Kay 1989:8).

Structuralists believed it was possible to achieve a more dynamic development process by reforming the capitalist system in developing countries. They proposed replacing the primary export development model supported by the old oligarchical order, which included the national bourgeoisie (large landowners and merchants) and foreign bourgeoisie (foreign owners of agro-mineral industries), with an inward-directed development strategy based on a model of Import Substitution Industrialization (ISI). This new model was supported by a reformist coalition of national and foreign industrialists, the middle class, and the urban working class (Kay 1989:19). Structuralists believed that under this model, the state would act as the main agent of change, as the only institution capable of transcending sectoral interests and acting on behalf of the national interest, to intervene in the economy and the market thorough planning, protective tariffs, price controls, state investment, joint ventures with foreign capitalists, the establishment of common markets and other initiatives. While not advocating nationalization of industries, structuralists did call for foreign investment in the manufacturing sector (Kay 1989:21).

Dependency theory

There is a very diverse body of literature that has come to be known as dependency theory. Dependency theorists share the view that underdevelopment is not a stage of development, but a particular form of capitalist development that arises from the way developing countries are inserted into the world capitalist system (Kay 1989:128 -129). A cornerstone of dependency theory is the centre-periphery paradigm, which is used to explain inequality within the world economic system (Wallerstein 1974).[3] In this paradigm, advanced capitalist countries occupy the centre of the world economy while underdeveloped countries remain at the margins. Dependency theorists argue that each peripheral country's insertion into the world capitalist system needs to be understood in terms of its interrelationship with countries in the centre, how economies in the centre and the periphery are linked though a series of asymmetrical relationships, and how this leads to the absence of a self-sustaining capacity for economic growth in peripheral economies. As explained by Dos Santos:

> Dependency is a *conditioning situation* in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can expand through self-impulsion while others, being in a dependent position, can only expand as a reflection of the expansion of dominant countries, which may have positive or negative effects on their immediate development. In either case, the basic situation of dependence causes these countries to be both backward and exploited (Dos Santos 1973:76).

Latin American dependency theorists (known as *dependistas* in Spanish) have tried to integrate their understanding of dependency with a theory of Marxism. They therefore examine the interrelation of external and internal factors, recognizing the external constraints of the global economy and the internal constraints of class struggle. Kay (1989:23) categorizes Latin American *dependistas* into two broad categories: "structuralist-cum-reformist and neo-Marxist-cum-revolutionary."

The reformist *dependistas* of the 1960s and 1970s, including Fernando Henrique Cardoso and Enzo Faletto (1979), Oswaldo Sunkel (1969) and Celso Furtado (1971) thought it possible to overcome the limitations of the capitalist system.[4] These limitations included the concentration of technology in the hands of foreign capitalists, the destruction of previously labour-intensive manufacturing processes, the failure to absorb surplus labour, the widening gap in income distribution, and the gap between the rural agricultural economy and urban, capital-intensive industry. In their view, ISI had created a bottleneck within newly established domestic industries, because these industries were still dependent on importing capital equipment and component parts from advanced industrialized countries, which created ongoing-balance of payment problems (as imports exceeded exports), a foreign exchange crisis, and increasing debt. These writers called for greater national control over the development process and investment of foreign capital (Kay 1989:127). Leys (1996:13) suggests these theorists, as reformists, believed that "countries of the 'periphery' could somehow, through better theory and different political leadership, jump over the barriers placed in their way by history." As my own research will demonstrate, this statement would certainly appear to characterize Cardoso's own beliefs as a politician.

The more radical group of neo-Marxist thinkers, including Ruy Mauro Marini (1965, 1972) Theotonio dos Santos (1971, 1973) and Andre Gunder Frank (1972, 1975),[5] believed only socialist revolution could overcome dependency; that a bourgeois revolution was unlikely due to the dependent nature of the national bourgeoisie on both the state and foreign capital, and that a worker-peasant alliance was needed to support a revolutionary struggle for socialism (Kay 1989:19). Dos Santos (1998:55) is of the view that while classical and neoclassical theorists believe that comparative advantage is the way to modernization and denied the necessity of industrialization, structuralists of the ISI period had a similar blind faith that industrialization would guarantee the modernization of the economy. Dependency theory demonstrated that industrialization did not bring autonomy of decision-making, because industrialization was determined by foreign investment from advanced countries. It did not improve income distribution because oligopolistic capitalism concentrates wealth and power. Productivity gains do the same, by raising the incomes of some and causing unemployment for others, leading to urban marginalization.

Dependency theory and Marxism

During the 1970s and 1980s debate raged over the relationship of the theory of dependency to Marxism (see Chilcote 1974, 1981). Many Marxists identified theoretical weaknesses in dependency theory. Ronald Chilcote (1981:4) for example, identified some of these weaknesses as a tendency to emphasize relations of exchange over relations of production; a failure to relate dependency theory explicitly to class struggle; an exaggerated emphasis on nationalism and development; and an obscuring of the meaning of imperialism. Within these debates, Cardoso, for example, is often criticized for mixing developmental and Marxist frameworks (Cueva in Chilcote 1981:5), for being eclectic in his use of Marx (Weeks and Dore 1979:78), for not using essential categories of Marx's critical political economic discourse (Dussel 1990:69-70), and for being a reformist and therefore an apologist for neo-colonialism (Angotti 1981:124). I will now examine Cardoso and Faletto's work, how it fits first within structuralism and dependency theory, and then within the Marxist tradition of historical materialism.

Cardoso and Faletto: diagnosing situations of dependency

Fernando Henrique Cardoso and Enzo Faletto (1979) wrote their pioneering book, *Dependency and Development in Latin America*, when they worked with ECLA. Cardoso and Faletto (1979:viii) claim they developed their thesis as a critique of ECLA's structuralist approach to development, because its analysis was not based on an analysis of social process, did not take account of asymmetrical relations between classes, nor consider the imperialist nature of relationships between countries. They also wrote their book as a critique of modernization theory because in their view, the nature of the capitalist mode of production implies an unequal relation between advanced and developing countries, and that this was an inherent contradiction within capitalism that would not be resolved through stages of development. And they wrote their book as a critique of the centre/periphery paradigm, because they considered that all economies belong to one international capitalist system. In their view, an acceptance of the centre/periphery paradigm leads to the acceptance of a duality that stresses the function that underdeveloped countries perform in world markets, but overlooks class exploitation involved in situations of dependency.[6]

Cardoso and Faletto (1979:vii) claim their purpose was to "show specifically *how* social, political and economic development are related to Latin America," therefore they needed an approach that addressed the limitations they identified by clearly defining the nature of capital, class, the state, development and dependency. They believed such an approach was necessary, not to formulate a new theory of dependency, but to diagnose situations of dependency within the constantly changing world capitalist system (Cardoso and Faletto 1979:xxiii).

Defining capital, class and the state

In the preface to the English edition, Cardoso and Faletto state their theoretical perspective:

> We oppose the academic tradition which conceived of domination and socio-cultural relations as "dimensions," analytically independent of one another, and together independent of the economy, as if each one of these dimensions corresponded to separate spheres of reality. In this sense, we stress the socio-political nature of the economic relations of production, thus following the nineteenth century tradition of treating economy as political economy. This methodological approach, which found its highest expression in Marx, assumes the hierarchy that exists in society is the result of the established ways of

> organizing the production of material and spiritual life. This hierarchy also serves to assure the unequal appropriation of nature and of the results of human work by social classes and groups. So we attempt to analyze domination in its connection with economic expansion (Cardoso and Faletto1979:ix).

In this brief passage, Cardoso and Faletto establish the key elements of their theoretical framework, and outline the reasons why I believe it is useful to employ their approach. First, Cardoso and Faletto identify their intellectual roots within the tradition of political economy, explain why it is important, and then explicitly adopt Marx's methodological approach of historical materialism by accepting Marx's understanding that the economic structure of society is socially constructed according to the way it meets its material needs. Therefore, the social relations and forces of production constitute the foundation of society. It is important here to take a moment to explain the meaning of this complex concept.

According to Marx,[7] the social relations of production, the formative relationships between social groups involved in the production of material life, create the social foundation of the economic structure of society. In the capitalist mode of production, there are two formative groups, the capitalist class that own the means of production, and the working class that has only its labour-power to sell. The forces of production refer to the "sheer power to transform nature" (Harvey 1999:99) and include the means of production (tools, machines, technology, factory buildings etc.) and the labour-power of the worker who uses these means to produce new commodities. In Marx's theory of historical materialism, "the mode of production of material life conditions the social, political and intellectual life process,"[8] and establishes the conditions within which class struggle occurs.

To understand class struggle, it is important to understand what the struggle is about. Inherent in Marx's understanding of the capitalist mode of production is the fundamental insight regarding the nature of value and how value is created. Each commodity (including labour- power when it is sold as a commodity) has both use-value and exchange-value. When a worker sells his labour-power, it is sold for its exchange-value. When the labour-power is used to make new commodities, the capitalist uses labour's use-value, a value paid for when the capitalist bought the labour from the worker. However, during the process of production, the worker not only produces new commodities, but also creates new value (surplus value), which is inherent in the new commodities produced. When the new commodities are sold, the capitalist appropriates the surplus value created by the worker without giving the worker an equivalent exchange for the new value created. It is this appropriation of value by the capitalist that forms the foundation of exploitation upon which the capitalist system is built, and forms the foundation of the struggle for fair exchange between the capitalist and the working classes.

Cardoso and Faletto adopt Marx's theory of historical materialism, Marx's understanding of capital as a social relation and therefore the basis of class struggle, and the social structures created to maintain the domination and exploitation inherent in capitalist social relations as explained in this passage:

> First of all, every economic link is, by itself, a social link. Capital itself is the economic expression of a social

> relation; it requires the existence of persons working by wage – selling its labour force – and another group owning machines and money to buy raw material and to pay wages and salaries. On the other hand, such an "economic" relation supposes not only exploitation - and thus social mechanisms to assure domination - but some degree of stability and recurrence in the relation of exploitation. Then this form of relation has a structure. Nevertheless, if structures already built appear as a mechanism that promotes the "natural" reinforcement of a given social order, they have been built as a result of social struggles and are, in that sense, a historical product (Cardoso and Faletto 1979:13).

Here, Cardoso and Faletto establish the framework for their understanding of capitalism, of the social relations of capitalist production, based on the domination and exploitation of wage-labourers by capitalists. They also identify the constituent elements of the productive forces, which include the means of production and the labour-power that transforms these means into commodities. In this passage they also allude to their understanding of the nature of the state, a historically developed social structure, built as a social mechanism of domination and exploitation through a process of class struggle. I therefore find unfounded, the criticism that Cardoso (at least in this text) is eclectic in his use of Marx, or that he does not use essential categories of Marx's critique of political economy.

Historical-structural analysis: a dialectical approach

To show specifically how social, political and economic development are related to Latin America, Cardoso and Faletto (1979:x) develop an approach they call a historical-structural methodology, an approach they claim emphasizes not just the structural conditioning of social life, but also the historical transformation of social structures by class struggle. In other words, Cardoso and Faletto's

(1979:xx) historical-structural methodology is a form of analysis that "illuminates the basic trends through which capital expansion occurs and finds its limits as a socio-political process." Their approach, therefore, is a dialectical one, between structural conditioning and the historical transformation of social structures through conflict. As explained by Font (2001:14), their analytical methodology enables a systematic analysis of the history and dynamics of capitalism, including trends in the global economy, which are necessary to understanding modern social life. Most importantly, their form of dialectical analysis "does justice to structural and historical diversity, the role of ideas and historical interaction, and opportunities for change." It is the dialectical interplay between capital, class and the state that ties their form of analysis, not just to Marx, but also to another Marxist theorist, Antonio Gramsci.

Linking economics and politics through a Gramscian understanding of political action

Cardoso and Faletto were not unaware of Gramsci's work.[9] In the postscript written for the English edition ten years after they first wrote their book in Spanish in the late 1960s, they remind us that, "what is important is an understanding of the essence of the contradiction between the interests of people and current style of development, between the state and the nation. In these relationships of opposition, if any cultural dimension exists and carries significance, it is what Gramsci called a relationship of hegemony: the capacity to rule" (Cardoso and Faletto 1979:216). Ten years earlier, in their original text, Cardoso and Faletto describe the theoretical point of intersection between economics and politics:

> Because the purpose of this essay is to explain economic processes as social process, it is necessary to find a theoretical point of intersection where economic power is pressed as domination, that is to say, as politics. An economic class or group tries to establish through the political process a system of social relations that permit it or impose on the entire society a social form of production akin to its own interests; or at least tries to establish alliances or to control the other groups or classes in order to develop an economic order consistent with its interests and objectives. The mode of economic relations, in turn, sets the limits of political action (Cardoso and Faletto 1979:15).

This passage has its intellectual roots firmly grounded in both Marx and Gramsci. This passage alludes to three key concepts introduced by Gramsci: hegemony, historic bloc and the nature of the state. To unpack the meaning of this passage, it is important here to take a moment to explain the meaning of Gramsci's terms, and the relationship of his theory of political action to Marx's theory of capitalism.

Martin Carnoy (1984:65) explains that Antonio Gramsci's major contribution to Marxism is that "he systematized, from what is implicit in Marx, a Marxist science of political action." As explained further by Stephen Gill and David Law (1993:94), Gramsci's concepts of hegemony, historic bloc and 'extended' state offer us a lens through which we can examine the dialectics of the normative (ethical, ideological) as well as the material dimensions of state, capital and class, and offers us a way to bridge the gulf between structure and agency. It is through Gramsci that Cardoso and Faletto find their theoretical point of intersection between economics and politics.

Gramsci makes it clear that he embeds his concepts of hegemony, historic bloc and the state within a Marxist theoretical framework of the social relations of production when he states, "the complex, contradictory and discordant ensemble of the superstructure is a reflection of the ensemble of the social relations of productions" (Gramsci 1971:366). For Gramsci, capital accumulation, understood as the social relations of production or the exploitation of subordinate classes by the ruling classes, is reflected within the ensemble of the superstructure, which is understood as the cohesive forces that bind society, including the complex of ideological and cultural relations, the spiritual and intellectual life and the political expression of those relations (Carnoy 1984:27, 68). The difference between Gramsci and Marx is where Gramsci locates civil society. For Marx, civil society is part of the structure. Marx explains his position as follows:

> My view is that each particular mode of production, and the relations of production corresponding to it at each given moment, in short 'the economic structure of society', is 'the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness', and that 'the mode of production of material life conditions the general process of social, political and intellectual life' (*Capital* Vol. I, 1976:175 footnote 35).[10]

Gramsci, however, suggests civil society is part of the superstructure, which leads him to assign an important role to the superstructure in reproducing the social relations of productions (Carnoy 1984:66). It is within Gramsci's superstructure, which is a reflection of Marx's structure, that hegemony, historic bloc and the state are located. The last sentence of Cardoso and Faletto's passage above (page 52 of this thesis) reinforces that their understanding of the economic as a social, and therefore a political, process is a dialectical one, where one conditions the other, and they use Gramsci's concepts of hegemony and historic bloc as the theoretical avenue of intersection.

As explained by Carnoy (1984:66), "hegemony, in Gramscian terms, meant the ideological predominance of bourgeois values and norms over the subordinate classes." Carnoy (1984:70) explains that Gramsci's concept of hegemony has two principle meanings. The first is " a process in civil society whereby a fraction of the dominant class exercises control through the moral and intellectual leadership over other allied fractions of the dominant class," thereby enabling this leading fraction to articulate the world view and interests of allied groups. The second involves "the successful attempts of the dominant class to use its political, moral and intellectual leadership to establish its view of the world as all-inclusive and universal, and to shape the interests and needs of subordinate groups" (Carnoy 1984:70). In other words, a hegemonic order is one where consent, rather than coercion, characterizes the relations between classes (Gill and Law 1993:93).

The concept of historic bloc, and how leading fractions of the dominant classes acquire hegemonic control, is embedded within the two principle meanings of hegemony. Gramsci describes an historic bloc as the 'organic link' between two levels of the superstructure. The first level is 'civil society,' the level of the 'private' that corresponds to the function of hegemony, which the dominant group exercises throughout society, and the second level is 'political society,' which corresponds to 'direct domination' that is exercised through the state and juridical government (Gramsci 1971:12). A historic bloc is " a fusion of material, institutional, inter-subjective, theoretical and ideological capacities" (Gramsci 1971:366); or as explained by Gill and Law (1993:94), "an historical congruence between material forces, institution and ideologies, or more broadly, an alliance of different class forces." In other words, a historic bloc describes a socio-political constellation of forces through which hegemony, as both normative and material relations of power, is exercised.

Gramsci clarifies the relationship of the superstructure to the state, and the state to the concept of hegemony and historic bloc, in his definition of the state. Observers point out that Gramsci did not articulate a single view of the state's relationship to hegemony (Anderson 1977; Carnoy 1984). However, Gramsci's view is made clear in two important instances. The first, is when he describes the state as "the entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance, but manages to win the active consent of those over whom they rule (Gramsci 1971:244). The second, is when he describes the state using the following equation: "State = political society + civil society; in other words hegemony protected by the armour of coercion" (Gramsci 1971:263). Here, the two levels of the superstructure combine to form the state as a synthesis of consent and coercion, with civil society representing hegemony and consent, protected by political society through direct domination and coercion (Carnoy 1984:73). In other words, the capitalist state both reflects the social relations of production and protects the hegemonic rule of the dominant classes through the coercive power of the political apparatus.

For Cardoso and Faletto, the state is a historically developed social structure, a social mechanism of domination and exploitation built on an economic foundation that establishes the social relation of production. The socio-political process is the historical transformation of this social structure through conflict and class struggle, a process that is linked to their historical materialist understanding of capital and class, and to their Gramscian understands of the state and political action (through hegemony and historic bloc). Their historical materialist framework and methodology of historical-structural analysis reveals the underlying dialectic between social structures, and how these structures have been continually shaped and reshaped by the historically given configuration of capital, class and the state. It is for these reasons that I believe their theoretical framework and analytical methodology is useful for my own analysis of the socio-political limits of neoliberal forms of capital accumulation in Brazil today. In the following section I examine Cardoso and Faletto's understanding of development and dependency, and role of the transnational corporation (TNC), which provide important starting points for my own investigation of the historical dimensions of foreign corporate ownership in Brazil.

Defining development

When Cardoso and Faletto (1979:xxiv) refer to development, it has a very specific meaning. It means "the progress of productive forces, mainly through the import of technology, capital accumulation, penetration of local economies by foreign enterprises, increasing number of wages-earning groups, and intensification of social division of labour." Development, then, is rooted in the forces and relations of production. Based on their view of capital as an economic expression of a social relation, Cardoso and Faletto (1979:13) view development as not just an economic process, but as a social and political one: "Development results, therefore, from the interaction and struggles of social groups and classes that have a specific way of relating to each other." Therefore development occurs as a result of class struggle.

Because they view development as a social process, where outcomes arise from relations of exploitation and domination, they do not have an idealist view of it, where they think of development as process of improving people's lives. In fact, Cardoso and Faletto recognize very explicitly that capitalist development does not necessarily lead to better outcomes for all people:

> This form of development, in the periphery as well as the centre, produces as it evolves, in a cyclical way, wealth and poverty, accumulation and shortage of capital, employment for some and unemployment for others. So we do not mean by the notion of "development" the achievement of a more egalitarian society (Cardoso and Faletto 1979:xxiii).

Therefore, Cardoso and Faletto criticize reformists who believe capitalist development will solve social problems, such as improved income distribution and better living conditions: "it is not realistic to imagine that capitalist development will solve basic problems for the majority of people" (1979:xxiii-xxiv).

According to Dos Santos (1998:56) Cardoso denied economic determinism; that dependency resulted mechanically in the decline in the terms of trade, regressive distribution of income, unemployment and marginality, as if these were intrinsic components of the condition of dependency. Instead, Cardoso believed, "at least in some countries of the periphery, the penetration of industrial financial capital accelerates the production of relative surplus value, intensifies productive forces, generates unemployment during economic recessions, and absorbs labour during expansions producing, in this respect, an effect similar to that of capitalism in advanced economies, where unemployment and absorption, wealth and misery coexist."[11]

Defining dependency

Cardoso and Faletto (1979:xxiii) never claimed to propose 'a theory of dependent capitalism'. What they do claim to do is provide a framework to analyze capitalist development and how it takes place within situations of dependency. In their view, an economic system is dependent when accumulation and expansion of capital cannot find its essential dynamic component inside its own system, and therefore is dependent upon another economy to supply it. Cardoso and Faletto (1979:xx) identify two crucial components needed to create a dynamic, self-expanding capitalist system: (1) the creation of new technologies, and (2) the production of capital goods (machinery and equipment), which actualize this technology.

Cardoso, in another article (1972:90), calls these two components "the production of the means of production." They are crucial because they are strategic. Cardoso (1972:90) relates control of these components to control of the strategic part of the capital reproductive scheme,[12] as commodities produced for consumption in dependent economies are exported and returned to the advanced economy in exchange for these two strategic components, and in this way completes the cycle of capitalist reproduction, which has been initiated by and for the benefit of the advanced capitalist economy. Therefore, relations between dependent and advanced economies are not just interconnected in terms of relations of exchange (trade), but are articulated through the control of the production system itself. Technology, either in the form of new innovation or transferred through capital goods, becomes the 'articulator', the point of interconnection between dependent and advanced economies.

Dependent development and the role of the transnational corporation (TNC)

Cardoso (1972:84-85) considers contemporary international capitalist expansion and control of dependent economies as a new form of imperialism, and the new vehicle of imperialist expansion to be the transnational corporation (TNC).[13] Therefore, capital concentration by TNCs, and their monopoly of technological progress, makes them an obligatory starting point for Cardoso and his historical-structural analysis of dependency (Cardoso 1972:85).

Beginning in the mid 1950s, Cardoso (1973:143) recognized that a new form of economic development was taking place, in which the state, local capital and foreign capital had become the main propellers of economic growth, a form that led to new pattern of capital ownership in Latin America. Cardoso (1972:89) characterizes this new pattern of ownership as "the joint venture enterprise, comprising local state capital, private national capital and monopoly international investment (under foreign control in the last analysis)." Peter Evans describes this new partnership in Brazil as the "triple alliance" between the state, local and international capital, a form of development Evans claims characterizes Brazilian industrialization in the last half of the 20^{th} century.[14]

For Cardoso (1972:91), the absence of the production of the means of production does not only explain dependency, but also domination, through the exercise of control, and therefore power: "Through technological advantage, corporations make secure their key roles in the global system of capital accumulation… the global process of capitalist development determines an interconnection between the sector of production of consumption goods (in dependent economies) and the capital goods sector (in advanced economies), reproducing in this way the links of dependency." Based on his understanding of dependency, development and this new pattern of imperialist capitalist expansion, Cardoso (1972:89) presents his dependent development thesis: "*dependency, monopoly capitalism* and *development* are not contradictory terms: there occurs a kind of *dependent capitalist development* in the sectors of the Third World integrated into the new forms of monopolistic expansion." Therefore, Cardoso and Faletto's (1979:173) claim that their notion of dependent development "goes beyond the traditional dichotomy between the terms "development" and "dependence" because it permits an increase in development while maintaining and redefining links of dependency."

Linking the external and internal

Because Cardoso and Faletto (1979:173-174) perceive that countries in the centre and periphery are not separate, but united, in their participation within a single global capitalist system, they believe it would be wrong to think that the internal socio-political situation within dependent economies is mechanically conditioned by external dominance, or that the internal situation is simply due to historical contingency. External and internal forces form a complex whole, as external interests become internalized within the dependent country. Relations of domination are rooted in the intersection of interests between local and international capitalist classes, and are constantly challenged by locally dominated classes (Cardoso and Faletto 1979:xvi). As values and interests of foreign capitalists coincide with those of local ones, the system of domination increasingly appears as an internal force (Cardoso and Faletto 1979:xvi). But through class struggle, these links are perpetuated, modified or broken (Cardoso and Faletto 1979:174). As the interests of foreign corporations become increasingly internalized through the national bourgeoisie, Cardoso (1973:149) modifies his original thesis of dependent development to one he called associated-dependent development.

Leys' (1996) criticism of Cardoso as a reformist and Angotti's (1981) criticism of him as an apologist for neo-colonialism most certainly stem from Cardoso's understanding of development. Cardoso's record as a politician, analyzed in this thesis in the next two chapters, will reinforce this criticism, just as his commitment to the dialectic, and rejection of economic determinism at the same time shields him from such criticism.

Reconciling dependent development with authoritative and democratic regimes

Throughout his career, both as an academic and as a politician, Cardoso struggled with the relationship of dependent development to the state. Under the model of dependent development, the state becomes a strategic component within the development of the capitalist mode of production, "functioning as a hinge that permits the opening of portals through which capitalism passes into industrializing peripheral economies" (Cardoso and Faletto 1979:202). However, from Cardoso and Faletto's (1979:173) perspective, "there is no metaphysical relation of dependence between one nation and another, between one state and another. These relations are made possible through a network of interests and coercions that bind some social groups to others, some classes to others. In this case it is necessary to determine the way in which state, class and production are related in each basic situation of dependence."

If there is a contradiction in Cardoso's work, it relates not to his theoretical framework as an academic, but to his weak commitment to it as a politician. This emerging contradiction between Cardoso the academic, the Marxist/Gramscian theoretician of dependent development, and Cardoso the politician, is illustrated in two articles he wrote attempting to reconcile his diagnosis of Brazil's situation of dependency, first under a military regime, and then under the transition to democracy. As this is central to my argument regarding the socio-political limits of neoliberal capital accumulation in Brazil today, I will now examine these arguments.

As an intellectual committed to the dialectic between economics and politics, Cardoso (1973:143) always warns against excessive economic determinism on the one hand, and political voluntarism (voluntary action) on the other. Therefore, he believes the articulation (point of interconnection) between the external constraints of the global economy and the internal constraints of class struggle can mean that a number of possible futures exist.

In his effort to explain why the military regime came to power in Brazil, Cardoso (1973:146) argued that the new international economic forces embodied in TNCs played a key role. He diagnosed a "basic change in the main axis of the power system," and suggested that while the state and domestic capital retain some role:

> The dynamic basis of the productive system has shifted. The result of these basic changes is that groups expressing the interests and modes of organization of international capitalism have gained disproportionate influence. From the perspective of our argument it does not matter greatly whether the industrial firms are owned out-right by foreigners or are owned by Brazilians associated with foreign corporations, for in either case they are linked to market investment, and decision-making structures located outside the dependent country (Cardoso 1973:146).

Cardoso (1973:147) argues in this article that this form of capital accumulation requires that the instruments of the popular classes, such as trade unions, be dismantled. At the same time, he diminishes the role of the national bourgeoisie to that of internalizing external interests. Cardoso sees the Brazilian bourgeoisie (1973:163) as no more than a "child of dependent capitalism," not strong enough to stage its own bourgeois revolution (a reference made to the American and French revolutions): "Its 'revolution' is limited to integrating itself into the scheme of international capitalism, to associating itself with international capitalism as a dependent and minor partner."

Under the military regime (1964-1984), Cardoso (1973:159) portrays the Brazilian bourgeoisie as having made a pact with the military, relinquishing its political instruments (political party system) as wells as its ideological instruments (freedom of the press) for the regulation of economic life. In the process, the military assumed an identity between the economic interests of the bourgeoisie and the general interests of the nation. This relates to the warning Cardoso and Faletto (1979:202) issued in their analysis of dependency and development in Latin America, when they warned that this reliance on TNCs and international capital had led the state to confuse the interest of the nation with its own, and had therefore confused the public interest with the defence of the business enterprise.

In an article written in 1983 (before Brazil's transition to democracy in 1985) on the relationship between dependent development and democracy (published in Stepan 1989) Cardoso (1989:318) maintains the same theoretical position on dependent development and the same commitment to the dialectic, and therefore to many possible futures. Here he accepts Gramsci's view of the political party as the place of "*mediation between idea and interest,* the Gordion knot of all politics."[15] At the same time, because of the historical specificity of each country's insertion into the world capitalist system, he rejects the notion that Gramscian theory can be directly transplanted to Brazil (Cardoso 1989:317). Cardoso (1989:320) states in this article that he is unsure whether the PT (newly formed in 1980) under Lula can be the party to offer Brazil an alternative society, even though he acknowledges that the PT most closely follows Gramsci's concept of hegemony in its formation, and therefore is the party closest to the "paradigm of authentic representation."

Cardoso considers the main opposition party to the military regime, the PMDB,[16] to perhaps have better chances of offering Brazilians an alternative, even though it is often criticized as being more "a 'front' than a party, organically disconnected from its base" (that is, a party led by elites, without direct connection to subaltern classes). However, Cardoso (1989:320) suggests, "in mass societies democratic parties which are open to social variation are, in a certain sense, fronts. But they are nonetheless parties, on the condition that they take positions on the major questions." This foreshadows Cardoso's involvement in the formation of the PSDB,[17] the social democratic party he led when he became president. The PSDB has also been characterized as a front, elite-led and organically disconnected from its base. I examine Cardoso's rejection of a Gramscian paradigm of authentic representation (a party like the PT, which is linked directly to its membership through trade unions and other subaltern movements) for a party like the PSDB, led by intellectuals and politicians, divorced from the daily concerns of subaltern classes. I discuss this contradiction in detail in chapter four of this thesis.

Teotonio Dos Santos (1998:60-61), in his analysis of this apparent contradiction between Cardoso's intellectual tradition and his actions as a politician suggests that the contradiction lies in Cardoso belief that dependent capital accumulation need not be more contradictory than it is in central capitalist countries, that associated capitalism can be reconciled with liberal and democratic political regimes, and that social policies can be used to reduce the concentration of income, social inequality and marginalization. Therefore, in Dos Santos' opinion, Cardoso does not believe that the transition to democracy depends on breaking dependence, destroying the hegemonic power of monopoly capital, agrarian reform or any other changes in the form of property. Dos Santos (1998:58) concludes that Cardoso believes "there is no absolute limit to the full development of productive forces in dependent capitalism; the limit is political."

Using Cardoso and Faletto's theoretical framework and their methodology of historical-structural analysis, I will analyze this contradiction in more detail in chapters three and four of this thesis. As my analysis will demonstrate, Cardoso's abandonment of the Gramscian tradition he ascribed to in his classic analysis of dependent development in the late 1960s, combined with his understanding of development as the progress of productive forces, which need not be more contradictory in dependent countries than it is in advanced capitalist economies, and his rejection of any form of economic determinism, led him to believe he could bypass the construction of hegemony to support his development model when he became president. His leadership of an elite-led party, divorced from any direct links with subaltern groups helped to create the conditions that led to the socio-political limits of neoliberal capital expansion as expressed by the election of Lula.

Nitzan's concept of capital as power

While Cardoso considers the control of the production of the means of production as an exercise of power and therefore domination, the ownership of corporations in dependent economies is another factor that must be considered as part of the imperialist expansion of TNCs. It was, however, not a factor of dependency that Cardoso and Faletto directly considered in their analysis of the 1960s and 1970s. Rather than focusing on ownership, they focused on how TNCs and advanced economies controlled strategic elements of the capitalist reproductive scheme, where capital is produced in dependent countries and exported in exchange for vital components of production. However, the privatization of state enterprises and the emphasis on the attraction of foreign investment in the 1990s, not as a means of overcoming dependency, but as a solution to Brazil's balance of payments problems, has made the transfer of corporate ownership from the state and domestic capital to foreign capital in the form of TNCs, a central focus as a mechanism of domination and control in the 1990s.

Analyzing the implication of this transfer of ownership, however, depends, of course, on the theoretical and ideological basis of the analysis. From the 'neutral' perspective of improved economic performance through efficiency gains, modernization, increased competitiveness and improved profitability, the case can be made that such ownership transfers are good for the Brazilian economy. In an examination of mergers and acquisitions (M&As) and privatizations in developing countries Ferraz and Hamaguchi (2002) identify several of these theoretical perspectives that focus on economic performance.[18] Based on a theoretical framework that places power at the centre of the analysis, however, other non-economic costs of these kinds of transactions are revealed, such as those associated with loss of control over economic policy making and the corresponding loss of control over implementing a national development strategy.

To analyze corporate ownership as a measure of power and control over a dependent economy's industrial structure, I use a methodology developed by Jonathan Nitzan (1998, 2001; Jonathan Nitzan and Shimshon Bichler 2002; Bichler and Nitzan 2003) [19] to analyze what he describes as differential accumulation. Differential accumulation refers to the drive of capitalists not to maximize profit, but to 'beat the average,' that is, to measure their differential accumulation as "the *difference* between the growth rate of their own assets, and that of the average" (Nitzan 2002:11). According to Nitzan (2002:38), to accumulate differentially is to increase ones share of total profit and capitalization, which increases ones relative power to shape the process of social change. To conceptualize this notion of power, Nitzan created a new theoretical framework around the concept of differential accumulation. It is important here to clarify why I choose to use his analytical methodology in my analysis, while not accepting his theoretical framework.

Nitzan's Theoretical Perspective

Nitzan is not a Marxist. What his approach offers us is an opportunity to analyze the motivation of capitalists, and the strategies they use to accumulate capital. It offers a methodology to analyze what occurs in the sphere of competition, which therefore focuses the analysis on agency, and issues of power. It should not be confused with a theory of how capitalism, as an entire system of production, circulation, distribution and consumption actually works. In fact, it is when Nitzan tries to turn his theory of how capitalists operate in the sphere of competition into a meta-theory for how capitalism works, that he gets into trouble.

To develop his theory, Nitzan chooses to base his ideas on the work of Thorstein Veblen. According to Nitzan (1998:83), Veblen considers capital to be a pecuniary magnitude only. The value of capital therefore depends on pecuniary earnings, which hinge not on the overall productivity of a company's industrial apparatus, but instead on the institutional ability of individual business firms to strategically limit production activity. This is what Veblen called 'sabotage', and for Nitzan (1998:183) becomes "the manifestation of capitalist power."

According to Nitzan (1998: 189), the emergence of capital as a business limitation of industry was intimately linked to the rise of the modern corporation, and to the use of credit as a means of ownership. For Nitzan (1998: 190), Veblen's 'sabotage' is a way of avoiding the crisis of overproduction, for "corporations emerged not to enable large-scale industry, but to prevent it from becoming 'excessively' productive."

Nitzan (1998:182) understands the corporation as an institution of absentee ownership. As absentee owners, shareholders have claims over a future stream of money income from the corporation. Their interest in accumulation, however, is not directly related to the augmentation of physical means of production, instead their interest lies in the augmentation of financial values.

Following a Veblenian understanding of business strategy as sabotage rather than as an industrial strategy to maximize profits, Nitzan (1998:206) proposes to "define capital as a *differential power claim over the social process.*" In another article, Nitzan (2003:18) describes it more clearly: "The power of capitalists to shape and transform the course of their society is commodified in the form of differential profits. Capitalists do not 'produce' capital first, and then fight over its 'redistribution.' Instead, it is their power, which gets capitalized in the first place. And power, by its very nature, is differential."

To measure power as a differential claim over the social process, Nitzan proposes a new analytical framework. In this framework, his unit of analysis is 'dominant capital,' defined as the most profitable corporations at the centre of the economy, "the largest coalitions of power at the centre of the political economy" (Nitzan 2003:9). He argues that the goal of these coalitions is not absolute accumulation, but differential accumulation. Nitzan (1998:206-207) defines 'differential accumulation' as the rate at which capitalized income (total assets)[20] of dominant capital expands relative to the economy's average. In his examination of the US experience, Nitzan found that compared to the decline over the last four decades of net corporate profits (as a percent of national income) and net investment (as a percentage of GDP), US differential accumulation rose. Furthermore, over the same period, the trend of net capital income[21] (as a percentage of national income) rose along the same path as differential accumulation by dominant capital.

Nitzan's (1998:210) point here is that from a Veblenian perspective, "capital income depends not on the *growth* of industry, but on the *control* of industry." Furthermore, Nitzan (1998:210) suggests, "Had industry been given 'free rein' to raise its productive capacity, the likely result would have been *excess* capacity and possibly a *fall* in capital's share. From this perspective, it is entirely possible that the upward trend of the income share of capital occurred precisely because 'real' investment declined."

Nitzan's analytical framework is interesting because it identifies a bifurcation of the interests of the capitalist classes, and a theory regarding why this occurs. He finds his theoretical anchor in Veblen because he needed to find theoretical support to consider pecuniary wealth as capital. If power is a reflection of pecuniary wealth, then it can be measured quantitatively. Veblen also provides Nitzan with an interesting explanatory tool in the form of sabotage as a business strategy. The word 'strategy' infers control, a proactive management response. Sabotage, as a method of control of the productive process infers relations of power.

Marx has a very different understanding of both capital and crisis, two concepts that are intimately connected. From Marx's perspective, crisis involves a reactive rather than a proactive response, and infers loss rather than gain. Crisis occurs when there is a breakdown in the movement of value in the process of it augmenting itself (valorization), it is a breakdown of the movement of M-C-M' (buying in order to sell, Marx's general formula for capital).[22] Unless money takes the form of a commodity (in the sphere of production where value is created by labour and appropriated by capitalists), it is not capital. This is why Marx called the fetishized form of credit money, a flow of money not backed by any commodity transaction, 'fictitious capital,' or money making money or M-M' (Harvey 1999:265). This is what Veblen and Nitzan call pecuniary wealth. This is what is destroyed in a crisis. Veblen's concept of sabotage is a theory of how to keep valorizing pecuniary wealth without the risk of over-accumulation. However, as Harvey explains from Marx's perspective:

> the category of fictitious capital is implied whenever credit is extended in advance, in anticipation of future labour as a counter-value. But the creation of fictitious values ahead of actual commodity production and realization is ever a risky business. The credit system becomes the cutting edge of accumulation with all the attendant dangers such exposure brings. The gap between fictitious values within the credit system and money tied to *real* value widens. The stage is set for crises within the credit system (Harvey 1999:266).[23]

As Harvey (1999:269) explains further, as money capital is invested in government debts, mortgages, stocks and shares, commodity futures and other such things, according to the rate of return, all connection with the actual expansion process of capital through commodity production is lost, and the conception of capital with automatic self-expansion properties is strengthened. Marx's purpose is to disabuse us of the idea that a marketable claim upon some future revenue is a real form of capital. Nitzan (1998:173), while thanking Marx for introducing capital as a social relation, ignores Marx's warning and quickly dismisses Marx's theory of capital as "production-based." An argument can be made to dismiss Nitzan's work because he does not carefully engage Marx. It is not as if power is an alien concept to Marx, it is the foundation of the relation of exploitation and domination between capital and labour. Nevertheless, as an analytical tool, as opposed to a theoretical one, Nitzan's work has value. His strategic perspective regarding how and why TNCs operate the way they do in the sphere of competition offers us another window through which to examine corporate ownership, capital as power, as Nitzan describes it, and how it impacts socio-political change. It is a methodology that goes beyond a simple analysis of economic performance of corporations, to incorporate the notion of struggle within the capitalist class itself.

I therefore limit my use of his work to his analytical methodology only. Nitzan's thesis regarding how capitalists operate in the sphere of competition is valuable, as is his theory of how capitalists exercise power. What Nitzan offers is a new approach for analyzing capitalist development, tying together mergers and acquisitions, stagflation and globalization, which I found useful in analyzing the socio-political limits of foreign corporate ownership.

Nitzan's analytical framework

To analyze differential accumulation, Nitzan (2003:21-23) has identified two methods, one he calls breadth, and the other depth. Breadth is analyzed in terms of increasing employment (in relative terms, faster than the average), and depth by the increase of profit per employee, again in relative terms. Each of these methods, breadth and depth, has two means of achieving results, which can be illustrated in the following table:

Table 2.1: Regimes of Differential Accumulation

	External	Internal
Breadth	Green-field	Mergers & Acquisitions
Depth	Stagflation	Cost-cutting

External breadth (green-field) occurs when new workers are hired and the corporation creates new capacity faster than the average. *Internal breadth* (merger and acquisition) occurs when corporations take over existing capacity and employees, by buying other companies. Nitzan (2003:22) claims that "twentieth century growth of big business was achieved mostly by amalgamation, with large firm buying existing capacity rather than building it."

Internal depth (cost-cutting) refers to the ability of large corporations to increase profit per employee by cutting costs faster than the average. *External depth* (stagflation) refers to a large company's ability to do the same by increasing prices faster than average. Nitzan (2003:23) claims that "historically, the main gains in differential depth have come from dominant capital raising prices faster than average, a process which at the aggregate level appeared as stagflation" (inflation and stagnation). Furthermore, Nitzan claims (2003:23) that amalgamation and stagflation have "become so paramount that now they appear as broad social 'regimes'."

Nitzan (2003:23-25) went on to provide empirical evidence to support his claim by examining the case of the United States. The US experience identified trends in which merger and acquisitions appear as waves, first as a monopoly merger wave at the turn of the twentieth century, then as an oligopoly wave through the 1920s where firms broke through their original industry envelope to create vertically integrated firms. The third was the conglomerate wave during the 1950s and 1960s where big firms diversified their activities, and the fourth was the global wave that occurred in the 1980s and 1990s shifting from US based multinational firms to transnational organization. Nitzan identifies how each 'breaking of the envelope' involves major legal, institutional and political realignment that takes time.

In terms of stagflation, Nitzan (2003:25-31) challenges the neoclassical view that inflation is a neutral phenomenon. These economists perceive it that way because inflation is generally defined in two ways: (1) as a continuous increase in the average price level, and (2) as an ongoing increase in liquidity (an increase in the total amount of money relative to the total volume of commodities.) Nitzan (2003:26) points out that these definitions are based on averages, and that all prices do not rise at the same average rate, they rise differentially. Therefore, inflation is a redistributional phenomenon, and not simply a monetary, or neutral one. It then becomes a question of analyzing who gains, who loses, and how.

Nitzan's analysis of the US experience identified two trends associated with inflation: a systematic redistribution from workers to firms and from small firms to large ones.[24] Large companies systematically beat the average when inflation was rising and systematically under-performed the average when inflation was falling. According to Nitzan (2003:29), large companies know that inflation helps them raise their profits faster than it helps workers raise their wages, but the downside is that inflation is also very socially destabilizing, as it tends to coincide with stagnating production and high unemployment. Nitzan's research indicates that (contrary to neoclassical belief) over the long term in the US, low inflation is associated with high growth and high inflation is accompanied by stagflation. Nitzan (2003:31) suggests that periods of stagflation should be considered as periods of "accumulation thorough crises," as stagflation and unemployment, along with other forms of instability and conflict constitute the necessary backdrop for differential accumulation through differential inflation.

In the next chapter I use their analytical methodology to examine how privatization, merger and acquisitions and inflation has supported a redistribution of wealth within Brazil, creating new patterns of economic ownership thereby empowering international capital, as represented by TNCs at the expense of domestic capital.

Conclusion

To overcome the analytical limitations I identified in the literature review, which include a focus on the state/market dichotomy, the separation of external market forces from internal political ones, the focus on state capacity to implement economic policy, and a reliance on ahistorical macroeconomic performance measures to assess success or failure, I employ Cardoso and Faletto's theoretical framework. I use their framework because it is grounded within Marx's theory of historical materialism and a Gramscian understanding of political action, which makes their methodology of historical-structural analysis useful in researching the historical dimensions of corporate ownership in Brazil, its concentration in the hands of international capital during Cardoso's two terms as president, and the socio-political limits of this form of capitalist expansion as expressed by the election of Lula. Their method of analysis, which Cardoso and Faletto (1979:x) use to identify social structures, both economic and political, as "products of man's collective behaviour," provides the framework needed to examine how these structures are historically transformed through conflict and class struggle.

The last decade of neoliberal economic reforms implemented under the leadership of Cardoso when he was president, have dramatically altered the coincidence of interests between foreign and domestic fractions of Brazil's capitalist classes. In chapter three, I examine how these interests are articulated, in order to understand why and how they have shifted, allowing new patterns of economic ownership to emerge. I combine Cardoso and Faletto's framework with Nitzan's analytical methodology of differential accumulation to deepen the macroeconomic analysis by focusing on shifting relations of power between the state, domestic capital and international capital. In chapter four, I examine the emerging contradiction between Cardoso's intellectual tradition and his actions as a politician, as he rejects Gramsci's theory of hegemony in favour of an elite-led style of government. It is through a crisis of hegemony that Cardoso's neoliberal form of capitalist development finds its limit as an expression of class struggle.

Notes

[1] See Rostow, W.W., 1960. The stages of economic growth: a non-communist manifesto. *In* J. Timmons Roberts and A. Hite, eds. *From Modernization to Globalization: Perspectives on Development and Social Chang,* Oxford: Blackwell. See Talcott Parsons (1964) and his argument regarding evolutionary universals in society.

[2] Structuralist concepts were largely formulated by staff working within ECLA, an organization of the United Nations. Kay (1989:233 note 8) provides an extensive bibliography on this subject. Some key works on structuralism include: O. Sunkel and P. Paz, 1970. *El Subdesarrollo Latinoamericano y la Teoria del Desarrollo.* Mexico, Siglo Veintiuno Editores; C. Furtado, 1965. Development and stagnation in Latin America: a structuralist approach. *Studies in Comparative International Development,* 1 (11); C. Furtado, 1974. *Teoria y Politica del Desarrollo Economico*, Mexico, Siglo Veintiuno Editores; and a critical perspective by O. Rodriguez,1980. *La Teoria del Subdesarrollo de la CEPAL*, Mexico Siglo Veintiuno Editores.

[3] As explained by Hall (1991:58), Wallerstein's world systems theory encompasses dependency theory in its approach. Wallerstein's overall perspective is based on the assumption that there is one capitalist world economy, which he characterizes as having a single international division of labour, with relatively highly developed nation-states at its core, relatively undeveloped countries at the periphery, and a semiperiphery of nations either undergoing decline or developing out of the periphery. Theoretically, relationships between societies in different positions are explained primarily on the basis of their pattern of trade, which relates to Frank's theory of the development of underdevelopment, in that advanced capitalist countries, through trade, have forced countries in the periphery to remain underdeveloped. This establishes a model in which economic roles of regions incorporated into the world economy through trade are determined by the their functional relations to the world process of capitalist accumulation. As Wallerstein stated, there is a need to conceptualize "one capitalist economic system with different *sectors* performing different functions" (Wallerstein 1979 in Hall 1991:58). It is the stress on the function each region (core, semi-periphery and periphery) performs in world markets that Cardoso objects to, because it does not address exploitation involved in situations of dependency, as discussed later in this chapter.

[4] See O. Sunkel, 1969. National development policy and external dependence in Latin America. *Journal of Development Studies.* 6 (1). 1969; C. Furtado, 1971. Dependencia externa y teoria economica. *El Trimestre Economico.* 38 (2) no.150. See Kay 1989:127 for a more complete list of reformist *dependistas.*

[5] R.M. Marini,1965. Brazilian interdependence and imperialist integration. *Monthly Review.* 17 (7); R.M. Marini,1972. Dialectica de la dependencia :la economica exportadora. *Sociadad y Desarrollo,* 1; T. Dos Santos, 1971. The structures of dependence. *In:* K. T. Fann and D. C. Hodges, ed. *Readings in U.S. Imperialism.* Boston: Porter Sargeant; T. Dos Santos, 1973. The crisis of development theory and the problem of dependence in Latin America. *In:* H. Bernstien, ed. *Underdevelopment and Development: The Third World Today.* Harmondsworth: Penguin Books; A.G. Frank, 1972. The development of underdevelopment. *In:* J.D. Cockcroft et al. ed. *Dependence and Underdevelopment : Latin America's Political Economy.* New York: Anchor Books; A.G. Frank, 1975. *On Capitalist Underdevelopment.* Bombay: Oxford University Press. See Kay (1989: 128) for a more complete list of neo-Marxist *dependistas.*

[6] I define the meaning of the terms 'capitalist mode of production' and 'class exploitation' later in this chapter.

[7] See Marx, *Capital* (1976) Vol. 1: chapters 1-8.

[8] See *Capital* (1976) Vol. I: 175, footnote 35. This passage was taken from the *Preface to A Contribution to the Critique of Political Economy*, written in January 1859.

[9] For a history of the relationship between Latin America and Gramsci's thought see R. Burgos (2002). The Gramscian intervention in theoretical and political production of the Latin American Left. *Latin American Perspectives,* 29 (122) No. 1, 9-37. Publication of Gramsci's work first appeared in Argentina in the 1950s and in Brazil beginning in 1966. After 1975, he (Gramsci) was thoroughly ensconced within the university, which became a privileged space for discussion and dissemination of his work" (Burgos 2002:9-10).

[10] This passage was taken from the *Preface to A Contribution to the Critique of Political Economy*, written in January 1859.

[11] Cardoso, F.H. (1993:143) *A construcao democracia:Estudos sobre politica.* Sao Paulo: Siciliano. Quoted by Dos Santos 1998:56-57.

[12] Cardoso (1972:90) relates the production of the means of production to "the Marxist scheme of capital reproduction." In this scheme, Marx divided the total production of society into two departments: Department I, *Means of Production,* which include commodities that have a form in which they must, or may pass into productive consumption as part of the means of production; and Department II, *Articles of Consumption*, which include commodities having a form in which they pass into individual consumption of the capitalist and working class (*Capital*, Vol. II 1967: 395). From Cardoso's (1972:90) point of view, dependency occurs when capitalists in advanced capitalists

countries control the strategic part of the reproductive system, Department I, the production of the means of production, which remains "virtually non-existent in dependent economies.

[13] In an article in the *New Left Review*, Cardoso (1972) argues that to explain TNCs as the new vehicle of imperialism requires that Lenin's classical formulation of imperialism be modified and updated. According to Cardoso (1972:85), in Lenin's classical formulation, imperialism should restrict economic growth and keep wage and salary levels low, because the internal market of colonial countries was of no significance to imperialist profits, which were based on unequal trade and financial exploitation. In Latin America, ownership of the productive forces belonged to the national bourgeoisie. TNCs are interested in expanding into dependent economies because there is an internal market to exploit. Therefore foreign investment takes on a new role through TNCs.

[14] See Evans, P., 1979. *Dependent development: the alliance of multinational, state and local capital in Brazil.* Princeton, Princeton University Press. The term "triple alliance" is one coined by Evans (1979: 9).

[15] A Gordian knot is an intricate problem, insoluble in its own terms.

[16] Partido do Movimento Democratico Brazileiro (PMDB) is the political party that had grown out of the pro-democracy movement to defeat the military regime in an election in 1985. See chapter four of this thesis, which discusses the role of this party in more detail.

[17] Partido da Social Democracia Brazileira (PSDB) is the political party Cardoso formed when he left the PMDB. I discusses the role of this party in detail in chapter four of this thesis.

[18] See Ferraz and Hamaguchi (2002) who identify several different approaches to analyzing M&As based on economic performance, including the Penrosian tradition (Penrose, Edith Tilton, 1959. *The theory of the growth of the firm.* Oxford: Basil Blackwell) that sees M&As as a mechanism for the expansion of firms to overcome limitations of existing internal resources; financing/management approaches that relate M&As to the market value of firms; industrial organization approaches that evaluate the economic consequences of M&As.

[19] Nitzan and Bichler jointly developed the concept of differential accumulation. Some articles are published by Nitzan alone, and others together. For the purposes of clarity, I refer to Nitzan alone and the date of publication of the material. The bibliography then clarifies authorship.

[20] Nitzan uses 'book value' as reported in financial statements to determine total assets. While a 'lagging' indicator, Nitzan claims this value is more accurate because it is not contaminated with investor 'hype'.

[21] Net capital income is defined as the sum of after-tax corporate profits (with capital consumption allowance and inventory valuation adjustments) and net interest.

[22]See Marx *Capital*, Volume 1 (1976), Chapter 4: The General Formula for Capital.

[23] See Marx *Capital*, Volume 1 (1976). Chapter 4: The General Formula for Capital; *Capital* Volume 3 (1981), Chapter 24: "Interest-Bearing Capital as the Superficial Form of the Capital Relation"; *Capital* Volume 3 (1981), Chapter 25: "Credit and Fictitious Capital."

[24] To measure *workers to firms*, Nitzan did the following analysis: The relationship between inflation (annual per cent change on the wholesale price index) and income distribution (ratio of *S&P 500* earnings per share and the average hourly wage in the private sector), resulting in a positive correlation between the two. The finding: during rising inflation, corporate profit tends to rise relative to wages, and vise versa. To measure *small firms against large* ones: The relationship between inflation (annual per cent change on the wholesale price index); differential accumulation is computed by calculating the ratio between earnings per share and small publicly traded companies on the S&P 600, and measuring the annual percent change of that ratio. Here too the correlation is consistently positive (Nitzan 2003: 27-28, figures 4 and 5).

Chapter 3: Historical Dimensions of Foreign Corporate Ownership in Brazil

Introduction

In chapter two, I argued that a historical materialist framework is needed that recognizes the state and models of development as moments in the social relations of production, and that to examine the socio-political limits of capitalist expansion requires an analysis of the articulation (point of interconnection) of capital, class and the state.

To examine this articulation I propose to analyze one aspect of neoliberal capitalist expansion, foreign direct investment, and how it is expressed through changing patterns of corporate ownership that emerged in Brazil over the last decade. To do so, I employ Cardoso and Faletto's historical materialist/ Gramscian framework and their methodology of historical-structural analysis, combined with Jonathan Nitzan's concept of differential accumulation, which he uses to integrate power into the definition of capital by explaining capital as a commodification of power (Nitzan 2002:10). This understanding of 'capital as power' goes beyond the notion of a neutral reorganization of resources for improved performance, to the broader understanding of the power of capital to restructure society and affect its overall development. Nitzan's analysis of regimes of differential accumulation, with its focus on dominant capital (the largest corporations at the centre of the economy), is used to explain two types of class conflict. The first is the intra-class conflict between domestic and international capital, as foreign capital exerts it power through mergers and acquisitions to acquire existing domestic companies. The second is wider class conflict when differential accumulation occurs through stagflation, and dominant capital exerts its power to raise prices faster than the average during periods of inflation and economic stagnation.

In this chapter, I examine how transnational corporations (TNCs), [1] through foreign direct investment (FDI), [2] have historically taken control of many of the most dynamic sectors of the Brazilian economy. By doing so, they have affected the market structure in two important ways: by raising levels of industrial concentration and by changing patterns of ownership through denationalization, thereby shifting the articulation of power between the state, domestic capital and international capital.

My examination begins with a historical-structural analysis of the first four phases of FDI in Brazil using Gereffi and Evans' (1980) periodization: primary product export economy (1880-1930); horizontal import-substitution industrialization (ISI) (1930-1955); vertical ISI (1955-1970; and diversified export promotion (1970-1985).[3] Gereffi and Evans have a similar Gramscian view of capital, class and the state as Cardoso and Faletto, and in fact use a historical-structural analysis to examine their evidence.[4] The way they describe the relationship between the state, domestic and international capital serves as a reminder of the approach used by Cardoso and Faletto:

> The process of dependent development is the result of the interaction of TNC strategies with the political and economic strategies of local social classes and host countries. TNC strategies are conditioned by the world economic environment especially as it impinges on their home states and by the forces of oligopolistic competition

> in global industries. The strategies of local groups vis-à-vis DFI are primarily expressed through the policies and actions of the state apparatus. These are conditioned not only by the international context but also by an historically given configuration of class structure, ideology, and local productive base. The local class structure and productive base, in turn, are the outcome of previous interaction between foreign capital and local classes (Gereffi and Evans 1980:33).

This echoes Cardoso and Faletto's (1979:153-154) view that capitalist development through external control is neither inevitable, nor a result of historical chance. As a result, conflicts or agreements among different social forces are not subject to determinism, but to the extent that the system of social relations is expressed through the state, a combination of structural possibilities is established historically. In my analysis of each of these four phases, I examine the structure of the national development model as a moment in the social relations of production, the role played by FDI in that structure, and the socio-political limits of that model of development.

I then examine FDI and the role it played in the development of Brazil from 1985 to 2002, and how it dramatically changed the pattern of ownership of the most dynamic sectors of Brazil's productive economy. I also analyze how it has shifted the articulation of power between the state, domestic capital and international capital. In chapter four I will analyze the socio-political limits of this form of capitalist expansion, as it was expressed by the election of Lula.

Foreign Direct Investment in Brazil: A Historical-Structural Analysis

Primary product export economy: 1880-1930

Until the 1930s, Brazil's economy depended mainly on the export of coffee and a few other agricultural products including sugar, cotton and cocoa.[5] It was an economic model known as export-oriented growth, or classic dependency, where countries like Brazil depended on the export of primary products in exchange for manufactured goods. While local Brazilian landowners owned and controlled the production, Brazil relied heavily on British imports of manufactured goods and on British loan capital, which was guaranteed by the state and invested mainly in local infrastructure projects (transportation and utilities). Since the production of primary commodities was designed for export, profits depended on the volume of external demand, so there was little incentive to increase the size of the domestic market. It was a model that depended on low wages to generate high profits. Because it depended on external demand, prosperity and recession were cyclical, and depended to a great degree on foreign coffee markets (Gereffi and Evans 1980:34).

At the beginning of the 20th century, the Brazilian state became increasingly active in protecting its primary exports. When Brazil's coffee production outstripped demand, the state of Sao Paulo initiated a coffee defence program. To prevent prices from falling due to over-production, the program established minimum prices and government-guaranteed earnings by purchasing surplus supplies. Financial resources for this program came from foreign loans. As a result, coffee became a business externally controlled and administered by foreign banks and trading houses that provided the loans (Gomes 1986:109). Internally, alliances were formed between landowners, merchants, financial groups, and the state. Cardoso and Faletto (1979:69) explain the relationship between capital, class and the state in these terms: "land and labour force are controlled by local entrepreneurs, and national political decisions that reinforce bourgeois control over productive systems are indirectly determined by entrepreneurs, through its control over the state apparatus."

Horizontal import-substitution industrialization (ISI): 1930 – 1955

Horizontal ISI is a form of industrialization that focuses on local production of consumer non-durables and the local assembly of consumer durables (Gereffi and Evans 1980:33). The primary export model was severely challenged by the world economic recession of 1930, which caused a dramatic fall in demand for primary products like coffee. Industrialization in Brazil had already begun to replace some British imports as early as the turn of the century. Production of commercial non-durable goods (in the textile, food and beverage sectors) was accelerated when internal demand, which had previously been irrelevant to growth, became essential to it. Local members of the capitalist class moved into industry via commerce, by expanding their commercial operations to manufacturing. Through the period of the first Vargas government (1930-1945), these new industrialists and primary exporters kept an uneasy alliance. The Vargas government had cobbled together a populist alliance of coffee growers, industrialists, and a rapidly urbanizing sector of workers by keeping the coffee defence program, augmenting tariff protection for new industries, and creating a national social security system for urban workers, making membership in government controlled unions compulsory (Maddison 1992:22). To prevent a transfer of capital from agriculture into industry, wages were kept low in the industrial sector, while profits from primary exports were used to purchase industrial inputs. Where the state had previously expressed the interests of primary exporters and landowners, and had acted as an agent of foreign investment, it now actively intervened to provide protective tariffs and create new infrastructure to support new ISI industries (Cardoso and Faletto 1979:93). Suffrage was extended from property holders to literates. The rural masses remained excluded (Maddison 1992:22).

Horizontal ISI was characterized in Brazil by the growth of the private sector economy and the creation of new areas of investment concentrated in basic industry and infrastructure (in steel, oil, transport and electrical power stations). An important trend was the emergence of US dominance in the area of foreign investment. Where once Britain had dominated, North American overseas investment reached a peak of 70 percent of Brazil's total FDI in 1950, while European investments dropped to 25 percent (Gereffi and Evans 1980:38).

While the primary export sector often complained, it could accept this new form of domestic expansion and industrialization, as long as their incomes were maintained by the export of coffee, which was booming as a result of World War Two and the Korean War. Gereffi and Evans (1980:38-39) characterize this period as one of diminishing dependency, when industrial strength of the local bourgeoisie was increasing, demands for raw materials accelerated, new markets for primary products were found, and there was diminished competition from imports in the domestic markets.

Vertical ISI: 1955-1970

When the price of coffee began to weaken in 1954, the Vargas alliance quickly reached its limits. When coffee prices fell, the ISI process, which had relied on primary exports to pay for industrial inputs, caused a crisis in the balance of payments when imports could no longer be guaranteed by domestic capital. While coffee prices in 1955 had fallen 30 percent from their peak during the Korean War, imports of machinery and equipment were up 60 percent from the 1940s (Gereffi and Evans 1980:39). Inflation also began to rise dramatically. In 1949, ECLA's Raul Prebisch had already published his analysis diagnosing the region's problem as it related to deteriorating terms of trade, where demand and cost of industrial imports were outstripping the ability to pay for them through primary exports alone (Kerner:2003). A new development strategy was needed.

Gereffi and Evans (1980:39) describe the objectives of vertical ISI as broadening the range of local production to include consumer durables and to build up local manufacturing in the capital and intermediate goods sectors, whose import were causing the biggest drain on the balance of payments. As investments were needed that were more technologically advanced and capital intensive, and with no system of subsidized credit to promote industrialization, Brazil turned to foreign investment and TNCs to find a solution. It was a solution that was embraced by the Kubitschek administration (1956-1961).

During this period, a new style of economic development was established in which the state, national capital and foreign capital (in the form of FDI by TNCs) became the main propellers of economic growth (Cardoso 1973:143). While agricultural and industrial interests continued to be favoured clients of the state, foreign private investment was welcomed. Vertical ISI was the period Cardoso and Faletto (1979) referred to as the "internationalization of external interests," and was the period Evans (1979) argued produced the foundation for the "triple alliance" of the state, local capital and international capital. In very general, highly stylized terms, each of the three types of investor specialized in a particular area of the economy. The public sector concentrated their investment in infrastructure and raw material, domestic capital concentrated their resources in agriculture, banking, commerce and light industry, and TNCs, through their subsidiaries concentrated their investment in consumer goods with higher technical components, together creating a relatively modern, diversified industrial base (Siffert Filho 1998:2). As declared by Gereffi and Evans (1980:40), "the vertical ISI stage marks the full blossoming of the process of 'dependent development'."

To attract foreign investment, foreign firms were allowed to import capital equipment at tariff levels below those imposed on Brazilian firms,[6] and at favourable exchange rates not made available to local entrepreneurs (Anglade 1985:57). During Kubitschek's administration, $647 million in FDI was attracted to Brazil at an annual average of over $110 million compared to the six years prior to 1955, when FDI in Brazil averaged less than $8 million (Gereffi and

Evans 1980, note 11). As a result, "local manufacture rose, imports as a percentage of total consumption fell, DFI burgeoned, and local manufacturing became increasingly foreign owned" (Gereffi and Evans 1980:40).

As the proportion of all US manufacturing affiliates established by acquisition grew from 9 percent (1946-1950) to 33 percent (1956-1960) during Kubitschek's administration, it had the effect of increasing the rate of concentration and reinforcing the oligopolistic tendencies of Brazilian industry (Anglade 1985:57). Kubitschek's goal of rapid industrialization (with his slogan, *Fifty Years in Five*) also included large investments in infrastructure, which were made to attract and support new foreign investments, but in turn led to an enlarged public debt (Anglade 1985:58).

According to Gereffi and Evans (1980:41), there was a nationalist reaction to the denationalization that accompanied the vertical ISI model. It reached its full flower during the brief regime of Joao Goulart (1962-64), a regime that was threatening to both local and international capital. From an average of $117 million per year during the previous five years (from 1957-1961), FDI flows in Brazil were reduced to $9 million in 1962 (Evans and Gereffi 1982:158-159). In April of 1964, on the verge of defaulting on its international debt payments, with the annual growth falling from 8.6 percent in 1961 to 3.4 percent in 1964, and inflation rising to almost 90 percent, the Goulart government fell to a military coup headed by General Humberto Castello Branco, who governed from 1964 to 1976 (Gereffi and Evans (1980:41). See Table 3.2.

To explain the transition from the democratic-representative regime of the primary export and horizontal ISI models of development to dependent development and the authoritarian-corporative regime of the vertical ISI model, Cardoso and Faletto (1979:167-168) argue that the military was advanced as a necessary condition of development and national security (in light of the Cuban revolution), as a period when "military interference in economic, political and social life is dressed up to appear as a kind of technocratic arbitration." The result was the partial fusion of the armed forces with the state bureaucracy. The military regime was then subjected to two different kinds of pressure: one from industry advocating for modern capitalist development, and the other by the national character and demands of social development.

Diversified export promotion (1970-1985)

The military regime made Brazil attractive again to foreign investment. By 1970, the annual flow of FDI was back over $100 million, bolstered by a substantial inflow of foreign loan capital, which was fuelling an expanded and diversified manufacturing capacity (Gereffi and Evans 1980:41). Between 1965 and 1972, the proportion of exports accounted for by manufactured goods more than doubled in Brazil, while the share of coffee declined from 42 percent of exports in the mid-1960s to 13 percent in 1974 (Gereffi and Evans 1980:42).

Profitability of manufacturing operations in countries like Brazil made it possible for the Brazilian state to gain the cooperation of TNCs in promoting the manufacture of exports. According to a report by Newfarmer and Mueller to the US Senate Subcommittee on Multinational Corporations (1974:14 in Gereffi and

Evans 1980, note 14), data from a survey of 179 of the largest US manufacturers located in Brazil and Mexico provided evidence of their profitability. After-tax earnings of affiliates amounted to 16.1 percent of direct investments in equity and long-term debt in 1972, and broad earnings (after-tax earnings plus royalties, payments for management services and other intangibles) amounted to 20 percent.[7] In terms of TNC strategy, Brazil was no longer viewed as simply a profitable domestic market, but as "part of an overall strategy of 'worldwide sourcing'"(Gereffi and Evans 1980:42).

Gereffi and Evans (1980: note 12) note that while in absolute terms, the value of foreign investment in Brazil as a proportion of total investment is relatively small (8 to 12 percent of total gross investment in the period 1950-1965), when a disaggregate view focuses on the leading sectors and the largest firms in these sectors, a different picture is revealed. Total growth produced by foreign firms in the 1949 –1962 period was 34 percent in manufacturing and 42 percent of all industrial growth deriving from import substitution. By 1972, TNCs held half of the assets of the largest manufacturing firms (see Table 3.3).

This research supports Nitzan's thesis of regimes of differential accumulation, and how dominant capital, the largest and most profitable corporations at the centre of an economy, exert their control. With acquisition of domestic firms left unregulated, the market power of transnational corporations in technology and financial markets enabled TNCs to take over local industries. In an article examining the affects of acquisitions on the electrical industry in Brazil,[8] Richard Newfarmer (1979:26) suggests that TNCs often relied on acquisition of local firms to enter or expand in developing countries. His research indicated that in Brazil, more than one-third of the 242 US-based TNCs established to 1975 were by acquisition of existing firms. By 1973-1975, nearly two of every three new subsidiaries came via the acquisition of an existing firm, rather than from green-field investment (see Table 3.4).

Newfarmer (1979:25-26) argues that the Brazilian state lost market control as a result of not regulating foreign acquisitions. In contrast to conventional trade theory, which explains acquisition as a natural process of reorganizing social resources towards greater efficiency, Newfarmer bases his argument on a trade theory proposed by Constantine Vaitsos who argues that a TNC investment resembles a bilateral monopoly, and that the distribution of gains between the TNC and a host country are decided on the basis of relative economic and political power. In Vaitsos' formulation, 'returns' include not only profits on subsidiary sales and intra-firm international transactions, but also some less quantifiable benefits termed 'control.' Control of a market guarantees a future stream of earnings in all categories.

Vaitsos' argument has some similarities with Nitzan's concept of differential accumulation. Differential accumulation refers to the drive of capitalists not to maximize profit, but to beat the average. To accumulate differentially is to increase a corporation's share of total profit and capitalization, which increases its relative power to shape the process of social change. Nitzan's (2002:10) concept of capital then becomes defined as "neither a material entity, nor a productive process, but rather the very ability of absentee owners to control, shape and restructure society more broadly." Nitzan then extends this understanding of power to industry, through the Veblenian notion that capital income depends not on the growth of industry, but on the control of industry, not on productivity, but on the control of productivity.

To analyze differential accumulation, Nitzan identifies two methods of accumulation: (1) breadth, which increases relative employment (faster than the average), and (2) depth, which increases relative profit per employee. He then identifies two means of achieving each of these methods of accumulation: external breadth (green-field investment), which creates new capacity; and internal breath (mergers and acquisitions), which takes over existing capacity; internal depth (cost-cutting) which increases profits per employee; and external depth (stagflation), when corporations increase prices faster than average.

Newfarmer (1979:25) argues that acquisitions affect the distribution of returns (including control) between TNCs and host countries in two ways. First, a TNC takeover increases the foreign share of the industry and affects the level of denationalization, by shifting control of productive assets from domestic to foreign ownership (Nitzan's internal breadth proposition by means of merger and acquisition). A second consequence occurs if the merger results in a higher market concentration. Newfarmer (1979:25) argues that oligopoly theory predicts that owners in concentrated markets will obtain higher profits at the expense of consumers (Nitzan's external depth proposition by means of stagflation).

In his analysis of why TNCs entered the Brazilian electrical industry through acquisition, Newfarmer found several reasons, of which I will review two: control of technology and access to finance. In his examination of "imperfections in the international market for technology," Newfarmer (1979:26) points out that domestic Brazilian electrical machinery firms acquired by TNCs were already operating at a technologically sophisticated level prior to acquisition, and that those acquired were already quite profitable (71 percent of Brazilian firms acquired had before tax earnings of 9 percent or greater in the year prior to acquisition). He suggests technology licenses were used by TNCs as a means of gaining market knowledge, because 14 of the acquired firms already had foreign licenses, and of these, 36 percent were acquired by their TNC licensor. Therefore, Newfarmer (1979:26-27) concludes that TNCs did not acquire Brazilian companies because they were inherently more efficient, or because Brazilian firms had no access to technology or were unprofitable, but rather because TNCs used their control over technology to gain control over domestically owned firms.

In his examination of "imperfect financial markets," Newfarmer (1979:27-28) found Brazilian firms also had difficulty gaining adequate financing, both within Brazil and internationally.[9] First, Brazilian firms faced higher financing costs, because they were considered higher risk (Brazilian firms paid 13 percent more than TNCs in financial costs relative to their total liabilities). Second, TNCs had access to capital and bond markets in the United States and Europe. Not only were interest rates lower than in Brazil, but borrowing subsidiaries had to repay in the local currency (cruzeiros) only the principle plus interest, adjusted at the rate of devaluation. A local borrower in

Brazil had to repay the principle, the interest *plus* monetary correction. The official policy between 1968 and 1975 was to devalue at a slower rate than domestic inflation, sharply increasing the relative costs to local borrowers. Newfarmer (1979:41,note 7) illustrates the dramatic difference this made to local borrowers when he uses the example of a subsidiary borrowing $100 in 1969 from international markets for five years, and a local firm borrowing the equivalent in cruzeiros at the same rate for the same period of time - and paying 140 percent more due to monetary correction. Brazilian firms faced the same disadvantages in obtaining equity participation, due to the absence of adequate long term financing in Brazil.[10]

Newfarmer (1979:39-40) concluded that TNCs were very successful in controlling the rapidly growing Brazilian market of the 1960s and 1970s, ensuring a steady stream of future earnings. Of the 47 acquisitions in the electrical industry between 1960 and 1974 only one resulted in a Brazilian controlled firm. TNCs increased their collective share of the Brazilian electrical industry from 66 to 77 percent during that period, "increasing concentration, raising barriers to entry and decreasing competition." Based on his analysis, Newfarmer (1979:40) concluded:

> There is no theoretical justification for expecting 'market for firms' (acquisitions) to reorganize Brazilian resources more efficiently. On the contrary, a theory recognizing economic power predicts net advantages accruing to its holders. Takeover patterns in the Brazilian electrical industry confirm that TNCs have made good use of their power to acquire 'control' in the market, and secure limitless streams of future earnings associated with transnational investment. In treating foreign takeovers no differently than domestic mergers, the Brazilian government has left unplayed a major trump card in its bargaining with TNCs – merger review.

Newfarmer's analysis of TNC takeovers in Brazil, and his case study of the electrical industry sector provides clear support for Nitzan's proposition of differential accumulation through merger and acquisition. To understand the nature of this form of capitalist expansion requires a framework that recognizes economic power, and places it at the centre of the analysis, as Newfarmer did. Nitzan's analysis of regimes of differential accumulation does the same.

In his analysis of inflation in Brazil during the 1970s, Anglade (1985) provides support for Nitzan's second proposition of differential accumulation through stagflation. He describes the characteristics of the imperfect competition in manufacturing production that had begun under the Kubitschek administration and grown substantially after 1964 in the same terms as Newfarmer. Anglade (1985:79-80) identified two contradictory policies, which combined to give foreign firms a market advantage. First was subsidized credit to Brazilian firms, which subsidiaries of TNCs could also access locally in Brazil. The second was the freeing of interest rates, with the expectation that allowing interest rates to rise would mean more expensive credit and therefore less demand for it in order to keep the money supply under control and reduce inflation. The combination of these two policies gave TNCs a distinct market advantage. First, Brazilian firms were considered higher risk, therefore disadvantaged in terms of the interest rates they were charged. Foreign firms had privileged access to both subsidized financing in Brazil, and when that became too expensive, to international financial markets, from which they often borrowed to speculate on the Brazilian domestic money market.[11] When interest rates were freed in the late seventies, the largest firms used their market power to pass on these costs (which they did not incur, but their smaller competitors did) to the consumer. In a situation of rising inflation, the mere expectation of inflation induced firms to put their prices up in anticipation of inflation, which again added to inflation. The monetary and financial policies of the Brazilian state therefore combined to reinforce the oligopolistic tendency of production by giving the largest firms an unfair market advantage. This led to concentrating production in the hands of a few TNCs in key industrial sectors, denationalizing key productive sectors, and putting inflationary pressures on the economy.

The military regime, however, was not totally insensitive to the needs of the national bourgeoisie, or to the imperatives of national social development. In response to the demand of local capitalists, the military regime introduced Resolution 63, which allowed domestic financial institutions to borrow on the Euromarkets and pass on the cruzeiro equivalent to domestic capital. Although between 1972 and 1981, $21.6 billion entered Brazil through this mechanism (Rocha 1994:80), domestic capital was still disadvantaged because they had to absorb the monetary correction described above by Newfarmer.

The Brazilian military was also careful to limit foreign ownership in some sectors. By 1974 state-owned enterprises (SOEs) were prominent in mining (62 percent), public utilities (88 percent) and petrochemicals (55 percent) and were expanding in the steel sector (Anglade 1985:86). By 1981, the country's 25 largest non-financial corporations were state-owned, with spending of $73.5

billion (28 percent of GDP) and with investments totalling $14.5 billion, 28 percent of Brazil's gross fixed capital formation (Frieden 1987:104).

SOEs also supported the private sector in important ways, providing them with subsidized prices for electrical energy, petrochemicals and steel, which benefited the automotive, pharmaceutical and chemical industries that were predominantly owned by TNCs (G. Rocha 1994:80-81). They were also an important source of orders for the country's domestic industry. SOEs accounted for over half of the domestic demand for heavy capital goods, a matter of no small importance to domestic capital goods producers (Frieden 1987:105). Foreign loans to SOEs were also used by the state to close balance of payments gaps resulting from import intensive industrialization (imports which indirectly helped TNCs to repatriate profits) and to service the foreign debt. This multi-faceted role that state enterprises came to play during the expansionist phase of export industrialization in the 1970s contributed heavily to the public deficit and the country's foreign debt (Anglade 1985:113). By 1981, the total debt of all SOEs was 112 percent of equity, and foreign debt of these companies amounted to 64 percent of all the country's debt (Frieden 1987:105, table 2).

By 1979, with inflation and debt load rising, the government tried to address its balance of payments problems by attracting more FDI, by abolishing its Law of Similars, which had prohibited the import of capital goods if they were being produced in Brazil, a law local industrialists saw as critical to their survival. However, rapidly growing flows of FDI proved insufficient to solve Brazil's balance of payment problems (see Table 3.5, where inflows of FDI steadily increase from 1970 to 1984, peaking in 1982). The incentives (access to credit from parent companies and Euromarkets) used and to attract TNCs contributed to driving Brazil's inflation back up to levels associate with the Goulart period and the military coup of 1964.

The explosion of international interest rates triggered by a rise in oil prices and US policy of increasing interest rates resulted in a global recession and a debt crisis that defined Brazil's political economy of the 1980s as it sank into a deep recession. Between 1980 and 1983, Brazil's real GDP fell by 8 percent, per capital GDP fell by over 15 percent. Industrial production dropped to 1977 levels, and manufacturing employment dropped to below 1976 levels (Frieden 1987:96). During the deepest recession in Brazil's modern history (1982 to 1991), foreign firms still managed to transfer $11.3 billion abroad in profits and dividends (G. Rocha 1994:82).

The government was increasingly losing control of the balance of payments and the public deficit, and their confused measures, to restrict imports, expand exports and contract the economy to combat inflation managed to displease everyone from wage earners, to local bourgeoisie to foreign banks. The illusion of legitimacy of the military government was fast disappearing (Anglade 1985:100-120).

Leading industrialists began to openly criticize the government for encouraging domestic companies to expand their productive capacity in the 1970s, and then through recessionary policies "leaving them with large debts and without a market, at the mercy of foreign firms and financial conglomerates"

(Anglade 1985:122). Anglade (1985:122) notes that by 1981 even the most powerful local industrial groups were selling their plants in textiles, cement and mining to foreign firms. The domestic capital goods sector was particularly critical of the government, when after abolishing the Law of Similars, the government began accepting foreign loans tied to allowing the import of capital goods that could have been purchased locally. Heavily in debt with local and foreign banks, domestic firms found it increasingly difficult to roll over their debts, with the government's own increasing uncreditworthiness making access to foreign credit almost impossible. Anglade (1985:123) concludes by criticizing Evans' (1979)[12] concept of the "triple alliance" in which TNCs, local capital and the state were to share profits, suggesting the myth had been shattered. By 1982, discontent among Brazil's capitalist elites was widespread, becoming universal by 1984 leading to the election of a new civilian government in March 1985.

Foreign direct investment in the era of the Washington Consensus (1985 – present)

The Sarney administration (1985-1989)

Starting in 1980, annual growth (GDP) fell from its historic average of 5.7 percent to 1.6 percent in 1990. Manufacturing industry suffered an even sharper decline and recorded negative growth from 1980 to 1990 (ECLAC 1998:148). According to Almeida (1996 in Velasco Jr. n.d.:3), the agenda of the first civil government of Jose Sarney (1985-1989) after the defeat of the military regime was characterized by efforts to tame inflation without using economic policies regarded as orthodox. According to Valesco Jr. (nd:3-4), even by the end of the

Sarney government, subjects such as privatization and trade liberalization had made only tenuous inroads into the political debate. Rejection of these types of adjustment policies were "deeply rooted in all segments which formed the opposition to the military government: fiscal imbalance was seen as a legitimate strategy to stimulate economic growth." Precedence was given to the reconstruction of democratic institutions with only moderate steps taken in economic reform. International imperatives, from organizations such as the IMF promoting neoliberal structural adjustment, only took root at the end of the 1980s.

Privatizations that did occur during the Sarney administration are an example of how restricted economic reforms were during this period. According to Velasco Jr. (n.d.:4-6),[13] the BNDES (the Brazilian national development bank) did initiate17 sales for a total of US $549 million, however the Bank was simply taking strategic action to recover losses by selling formerly bankrupt companies that it had absorbed by when the firms failed to meet their credit payments. During the Sarney administration, the Bank was not acting as the manager of a federal privatization program, as it would under the Collor administration. Foreign participation in these sales was not permitted.

The Collor and Franco administrations (1990-1994)

It was only under the Collor government (1990-1992), that an ideological and political commitment was made to privatization as a way of reducing the size of the state (Pinheiro 1994:739). The National Privatization Program (Programa Nacional de Desestatizacao, PND) was instituted in 1990 and managed by the BNDES as part of a broad program of market-oriented reforms, which also included trade liberalization, deregulation and some, although restricted, foreign participation.[14]

Privatization, as an instrument of economic policy, had a variety of competing objectives, from reducing the public debt to democratizing capital ownership.[15] In the end, however, the program chose to pursue debt reduction over the other objectives. Rather than pursuing a corporate ownership model based on dispersed ownership, where public assets are broadly redistributed through a large-scale sale of shares at a fixed price, the government chose instead an auction model, which suited Brazilian elites and ensured the continuation of the oligopolistic nature of the Brazilian economy.[16]

As Licinio Velasco Jr. (n.d.:12),[17] head of the BNDES privatization services explains, when an SOE was auctioned, the block of stock was offered without setting a minimum quantity of stock to be acquired, and without pre-qualifying candidates based, for example, on their experience in the industry. The only qualification needed was their ability to pay. The outcome of the auction was therefore not known in advance, and could result anywhere between two extremes: acquisition of the entire company by a single purchaser, or its division among an extremely large number of diverse investors. As a result a new pattern of ownership emerged in Brazil during the first privatization period (1990-1994). When SOEs in the commodity sector (steel, petrochemical and fertilizer) were put up for sale, investors with divergent interests often found themselves involved in the shared ownership of a company. According to Velasco, the advantage of this process was that it enabled a larger number of domestic firms to participate in the privatization program. Pinheiro (1994:751), however, has a different view. He argues that there was little interest on the part of investors in the auctioned companies during this period, and therefore the government allowed some of the companies to be sold to competitors, customers and suppliers: "This permitted private groups to increase their market power and created potential for future conflict. In practice, privatization has been used more to highlight the commitment to market-oriented reforms than to redeem debt or increase efficiency."

By the end of the Collor government, 16 privatizations had occurred for a total value of approximately US$3.9 billion. Companies privatized, however, were of little interest to foreign investors, with only five percent of the total value coming from foreign sources (see Tables 3.6 A and B that describe sales results first by investor and then by sector). The amount recovered through privatization was also small relative to the amount the government had invested in the privatized SOEs over the previous few years, over $13 billion, for example, in the steel sector alone (Pinheiro 1994:743).

While the privatization program may not have been a financial success, it did have the support of elite local capital.[18] In 1991, the Collor administration launched the Industrial Competitiveness Program, the objectives of which included equal treatment of foreign and domestic capital, and the support of local capital entering joint ventures with TNCs through the injection of generous credit.[19] The BNDES also established a highly controversial line of credit to finance modernization projects of TNCs, and provided sizeable loans to a few large domestic conglomerates to promote mergers and joint ventures that would enable them to compete in international markets. (G. Rocha 1994:91).[20]

Privatization was not the only adjustment measure introduced by Collor. He also reduced tariffs and eliminated other trade barriers and attacked inflation by imposing harsh controls on wages and prices (Macedo 2000:20). By the time Collor was impeached in 1992 (for corruption, not for his economic policies), his neoliberal economic reforms were firmly entrenched. When Itmar Franco took office (1992-1994), he chose to focus on the issue of inflation, which was rising to 40 per month by early 1994. During his term the privatization program initiated by Collor "lost speed, but not direction" (Macedo 2000:20).

As Saad-Filho (1998) rightly points out, privatization as a way of supporting private accumulation cannot be fully understood without examining other mechanisms such as high interest rates and inflation. These are all powerful mechanisms for transferring wealth from the poor to the rich, from the small to the large firm, and from industrial to financial capital. As Nitzan (2003:27) points out, contrary to the neoclassical view, inflation is "always and everywhere a *redistributional* phenomena."

In 1994, when Fernando Henrique Cardoso was finance minister in the Franco government, he developed and implemented the Real Plan, the stabilization program that finally tamed inflation in Brazil. Saad-Filho (1999), following a similar view to Nitzan but based on a Marxist analysis, deconstructs how the Real Plan worked. Very simply, his analysis suggests that based on the neoliberal principles of the Washington Consensus, the Real Plan was designed to succeed by attracting foreign capital through high interest rates. As Saad-Filho (1999:9) explains, while the purpose of the plan was to eliminate inflation, it did so with policy instruments that would promote investor confidence and attract foreign capital to finance Brazil's current account deficit, rather than with policies that would reduce distributional conflicts. While initially successful in reducing inflation, the eventual costs were high, resulting in explosive growth of the domestic public debt due to high interest rates, and cumulative deindustrialization (see Graph 3D (inflation), and the Balance of Payments Table 3.1, as well as Graphs 3A (trade balance), Graph 3B (current account) and 3C (external debt) and Graph 3E (interest rates) for the impact of the Real Plan on both inflation, balance of payments, interest rates and debt).[21]

The Cardoso administration (1995-2002)

Cardoso was elected president in 1995 based on the popularity of the Real Plan. Income gains through lower inflation combined with a more open economy that allowed cheaper imports to flow into the country made Cardoso a very popular presidential candidate. With the election of Cardoso, Velasco Jr.'s (n.d.14) indicates a shift in public support for the privatization program, from the Collor and Franco administrations. While Collor had the support of the business community, he was elected without broad party support and did not have much public support for his privatization program. Cardoso, however, was elected with a much wider base of support, which gave him a mandate Collor did not have. As a result, privatization as a public policy faced less resistance during the Cardoso regime. Therefore, Cardoso was able to undertake the auction of large, capital-intensive companies in the service sector (electricity and telecommunications). These sectors were of much greater interest to foreign investors, who purchased 53 percent of the privatized firms from 1995 to 2002 (see Tables 3.7 A and B that describe sales results first by investor and then by sector. Table 3.8 indicates the annual evolution of funds received through the privatization program during the entire decade of the 1990s and Table 3.9 describes the accumulated results from the Collor and Franco period of 1990-1994 and then the Cardoso period of 1995 to 2002. Graphs 3F and 3G indicate foreign investment inflows from 1980 to 2000, and FDI in Brazil compared to the rest of the world average from 1980 to 2000).

The objectives and processes of Cardoso's privatization program were the same as when the program was first established in 1991. However, while Cardoso maintained the auction model, he made big changes to the rules. With domestic capital facing a scarcity of funds, the government did not want to risk lower prices being bid through a shared ownership auction process, and instead chose to auction single, controlling blocks of shares. This was done to ensure the participation of foreign investors by reducing the uncertainty of buyers having "partners with whom they would have to relate" (Velasco Jr. n.d.:14). Therefore the opportunity for domestic capital to gain from privatization was restricted during the Cardoso regime.

Macedo's (2000) argues that despite the size of the privatization program in the latter half of the 1990s the objectives were again not achieved. The influx of FDI received from Cardoso's privatization program did not contribute to reducing the government's deficits and debt, and few gains were made in terms of democratizing capital ownership.[22]

Cardoso's prestige and credibility rested on price stabilization. Throughout his two terms as president, he continued to use high interest rates to defend an overvalued, but stable, currency (see Amann and Baer, 2000:1813). According to Macedo (2000:22-24), by the time the currency was devalued in 1999, the increase of debt from 1997 to 1998 (US$65 billion at the prevailing exchange rate) was equal to 73 percent of the total value obtained from the privatization (US$88 billion). What the huge influx of FDI did do, however, was to allow the financing of higher current account deficits, which helped to postpone the devaluation of the currency until after the telecommunications sector had been privatized in 1998. Once the privatization program was over, devaluation soon followed.

Other studies have examined the implication of changes to the ownership structure of Brazil's largest companies that occurred over the course of the privatization program from 1991 to 2002. I will examine two recent studies, one conducted by Nelson Siffert Filho (1999) of the BNDES, and the other an independent analysis by Frederico Rocha and David Kupfer (2002). Both base their examination on what Nitzan calls dominant capital, or the largest corporations at the centre of the economy, and both have clearly demonstrated the increasing power of TNCs relative to domestic capital.

Arguing the implications of these ownership transfers depends, of course, upon the theoretical and ideological basis of the analysis. Emphasising efficiency gains, modernization, increased competitiveness and improve profitability, the case can be made that such ownership transfers are good for the Brazilian economy. Based on a theoretical framework that places power at the centre of the analysis, however, the true cost of these kinds of gains are revealed. Such costs include reinforcing the oligarchical nature of Brazil's largest companies, by concentrating power in the hands of either a few rich domestic elites, or the cost associated with denationalization, leading to increased repatriation of profits and dividends irrespective of national economic conditions. See Table 3.10 regarding acquisitions of existing firms by foreign investment and remittances abroad from 1994-1998, as well as Graph 3H that indicates mergers and acquisitions by both domestic companies and foreign companies from 1994 - 2000.

Siffert Filho[23] (1999:4-5) examines the transformation that occurred in the ownership structure of the 100 largest companies in Brazil over the period of 1992 and 1998. He identified these firms based on their net operating revenue. He understands mergers and acquisitions (M&As) as a strategic response of corporations to the emergence of a new institutional and competitive environment caused by the globalization process, with the principle consequences being the emergence of megacorporations and the concentration of production. Factors motivating M&As are identified as business strategies related to rapid penetration of new markets, consolidation of market share, investment opportunities resulting from deregulated markets, economies of scale, synergies and the possibility of financial gain. Power is understood as market power, as opposed to Nitzan's formulation of power as a force that influences social change. In fact, Siffert Filho

(1999:9), perhaps reflective of his position as a researcher at the BNDES, has a rather positive view regarding the impact of this transformation. Despite growing activity among foreign companies, he argues domestic companies have been presented with good opportunities for diversifying their activities, and have formed partnerships with foreign companies, through which they have leveraged resources such as technology and expertise. This is undoubtedly true. However, his own analysis also reveals a less rosy picture.

Siffet Filho (1999:18) found that privatization was a starting point for corporate restructuring in several sectors, driving M&As and further concentrating and denationalizing some sectors. Although the correlation between M&As and concentration varied from sector to sector, when there was no state intervention through regulation, then the degree of concentration increased. In more regulated sectors (such as telecommunications and electricity), this has not (yet) occurred.

Concentration is particularly evident in sectors where M&As have been exclusively private transactions, with no direct intervention from the state in the form of privatizations or regulation, such as in the food, beverage and tobacco sector; retailing; auto parts; pharmaceuticals; automobiles; textiles and apparel; and cement. In the food, beverage and tobacco sector, for example, of the 208 transactions between 1992 and 1998, over 60 percent involved foreign companies as buyers. In 1992, of the 20 largest companies in the sector, only two were foreign-owned; by 1998, 13 were foreign owned. In 1991, 20 of the largest companies in a sample of 338 accounted for 42 percent of the net operating revenues. By 1998, the largest 20 of 252 companies accounted for 67 percent of total sales (Siffert Filho 1999:12).

In the steel sector, the privatization program was the starting point of the restructuring process. The 102 M&As in this sector between 1992 –1998 resulted in increased concentration. In 1991, the 20 largest of 533 companies accounted for 57 percent of total net operating revenue. By 1997, the 20 largest in a sample of 267 companies accounted for 67 percent. The total net operating revenue attributable to foreign companies rose from 36 percent in 1992 to 45 percent in 1997 (Siffert Filho 1999:15). Liberalization of the foreign ownership regulations governing Brazil's national financial system has resulted in the same thing. In 1994, foreign companies owned less than 10 percent of total assets, by 1998 that share has increased to 35 percent (Siffert Filho 1998:17).

Siffert Filho then proceeded to analyze new emergent forms of capital control using categories of corporate ownership identified by Thomsen and Pederson (1995).[24] These categories include dispersed ownership, dominant minority ownership (shared control), family ownership, state ownership, foreign ownership, and cooperatives.[25] Shared control is the new form of corporate ownership described by Velasco Jr. (n.d.) that occurred during the Collor administration. It is important to note that Siffert Filho defines shared control as a minority ownership share, of between 20 to 50 percent of voting capital, where management depends on an agreement between controlling stockholders. While this form of governance separates property from control, he acknowledges that in

50 percent of these companies, foreign stockholders own the majority of voting capital (Siffert Filho 1998:23).

When Siffert Filho classified the largest 100 companies in Brazil according to this taxonomy, he viewed positively the fact that this form of shared control (dominant minority ownership), in terms of its share of total revenues, had risen from 4 percent in 1990 to 19 percent in 1998 (from 5 companies in 1990 to 23 companies in 1998). However, family ownership share of total revenues had declined from 23 percent to 17 percent (although the number of companies stayed roughly the same); government ownership share of total revenues had declined from 44 percent to 21 percent (with an asset transfer of US$68.3 billion from privatization sales, the number of companies declined from 38 in 1990 to 12 in 1998); and foreign ownership share of total revues had increased from 26 percent to 40 percent (with the number of companies increasing from 27 in 1990 to 34 in 1998). See Table 3.12.

The most startling statistic is that foreign investors have come to own 34 of Brazil's largest 100 countries, with a revenue share of 40 percent of total revenues generated by these top 100 companies. This does not include the influence of foreign investors who have a dominant position in over half of the 'shared control' companies, which have total revenues of an addition 19 percent. The oligopolistic nature of the Brazil's top 100 companies remains in tact, with only four companies in 1998 having dispersed ownership, and only one cooperative. Siffert Filho (1999:23) questions the ability of family-owned business to survive, and expects internationalization of the largest companies to become even more acute.

Siffert Filho's research supports Nitzan's proposition regarding differential accumulation through merger and acquisition. There has also been a profound reconfiguration of Nitzan's dominant capital in Brazil. To suggest that domestic capital and foreign capital will continue to share control of jointly owned companies might be wishful thinking by Siffert Filho, if viewed through a lens that places power at the centre of the analysis.

Frederico Rocha and David Kupfer (2002) also found major changes in the ownership structure of leading companies in Brazil in the 1990s using different data and analytical methodology,[26] based on an analysis of 1,149 transaction taking place between 1990 and 1999. They note that the vast majority of transactions involved acquisitions, the majority of which was of over 50 percent of the company stock.[27] These transactions rarely involved mergers. Their study is divided into two periods, the first period of 1990 –1996 covers 37.9 percent of all transactions, while the second period of 1997-1999 covered the rest (62.1 percent). In the first period, most transaction were in the manufacturing sector and in the second, most transactions involved service sector companies.

Rocha and Kupfer's (2002:505) research found that TNCs increased their market share in all sectors analyzed with the exception of the construction industry (see Table 3.11). In the commodity sector,[28] during the 1991-1996 period, the main force behind market share gain for both TNCs and private domestic firms (what Rocha and Kupfer call Private National Enterprises, or

PNEs) was the privatization of SOEs. However, in the second period, 1996-1999, the increase in market share of TNCs was due to the transfer of assets from PNEs. In the technology-intensive industries (electronic and electrical equipment; transportation equipment; drugs and machinery), TNCs have taken a striking leadership position by 1999. Their participation rose from 60.3 percent in 1991 to 86.9 percent by 1999, whereas PNEs lost market share in this same time period from 38.8 percent in 1991 to 13.1 percent in 1999. If Brazilian industry was dependent on TNCs for technology before 1991, this dependence rose dramatically by 1999, by which time domestic capital had lost almost its entire market share in the capital goods sector. In traditional manufacturing industries (food and kindred products; printing, publishing and allied services; textile and apparel products) where PNEs were historically dominant, TNCs showed an increase in market share as well.

In the service industries there was a greater diversity of trends. In the first period of 1991- 1996, SOEs transferred more market share to PNEs, and from 1996 –1999, the market share of TNCs grew faster for the same reason. However it is important to note that the only sector that PNEs remain in a clear leading position is what Rocha and Kupfer categorize as other services (which includes: wholesale trade; retail trade (food stores); radio and television broadcasting; business services and advertising services) with a market share of 67.5 percent. In infrastructure services (electricity, gas and water distribution; transportation and shipping (except air); and telecommunications) TNCs have a dominant market share with 32.2 percent by 1999 compared to PNEs with 24.9 percent of market share by 1999. According to Rocha and Kupfer's analysis TNCs have come to dominate almost the whole industrial structure.

Rocha and Kupfer's analysis differs from Siffert Filho's in two major respects. First, in terms of economic concentration Rocha and Kupfer find the market to be less concentrated. This could be for three reasons. First, the level of aggregation in their analysis is higher. Their analysis refers to general economic concentration[29] and not concentration in specific markets. Second, they consider new actors entering the market through acquisition to dilute the market, as opposed to Siffert Filho who examined changes in total revenues of the top 20 companies in specific sectors. Third, the short time period of acquisitions in the last two years has not allowed for great changes in efficiencies to take place, which will lead to the demise of weaker companies through acquisition. Rocha and Kupfer (2002:508) did, however, notice an increase in concentration in commodity industries as a result of post-privatization acquisitions. Of the 69 transactions that occurred in the period 1996-1999 with privatized companies, 26 were post-privatizations with most of the acquiring firms being TNCs.

The second major difference is their view of corporate strategy. In Rocha and Kupfer's (2002:498) analysis, acquiring firms have adopted a specializing strategy, acquiring firms in their main sector of production activity, a strategy they recognize supports conclusions favouring concentration of specific markets. Their research also indicates that PNE's have adopted cost cutting strategies, which they suggest is a defensive strategy, which will leave them weakened and easy targets for takeover. This in turn has a negative effect on green-field investment. While Siffert Filho (1999:25) preferred to focus on those few well-capitalized family groups in Brazil who have made strategic moves to diversify through partnerships with TNCs (shared control), Rocha and Kupfer (2002:517) have revealed the disquieting fact that PNEs remain dominant in only three sectors: transportation and shipping; agriculture, forestry and fishing; and paper and allied products, the last two areas being sectors associated with primary exports.

Conclusion

My analysis of Brazil's development over the last century reveals the underlying dialectical relationship between social structures, both economic and political, and how they have been continually shaped and reshaped by the historically given configuration of capital, class and the state. Using Cardoso and Faletto's methodology of historical structural analysis, I examined the first four phases of Brazil's development, the structure of each national development model, the role of foreign direct investment, and the socio-political limits of each form of development, as each model was replaced by another. Grounded within Marx's theory of historical materialism and a Gramscian understanding of the state and political action, this form of analysis revealed the evolution of Brazil's development, and how, beginning in the 1950s, transnational corporations through foreign direct investment, began taking control of some of the most dynamic sectors of the Brazilian productive economy. By understanding the state and models of development as moments in the social relations of production, the analysis revealed the underlying social forces that controlled production, as well as the control and influence these social forces have over the state apparatus, which in turn reinforced their control of the productive system.

During the period of primary export, landowners and merchants controlled the production of coffee, British banks provided loans to the state to build the transportation infrastructure needed to ensure their continued access to these products, and British imports of manufactured goods provided for the needs of the coffee growers and merchants who used low wages to generate high profits to pay for the imported goods. When the demand for coffee on the world market fell during the depression of the 1930s, and locally manufactured products were needed to replace imports, a new coalition of social forces emerged of coffee growers (protected by a coffee defence program), new Brazilian industrialists (protected by import tariffs), the state, which continued to build infrastructure to support the new industries, and an emerging urban labour force. Again, low wages and high profits from a booming coffee economy after the Second World War supported a coalition kept intact by a populist government skilled in managing their diverse interests. But when coffee prices weakened again in the1950s, this alliance reached its socio-political limits.

To overcome its reliance on primary exports and the resulting decline in the terms of trade, a new development model was needed to create a capital and intermediate goods sector, whose import were causing the biggest drain on the state's balance of payments. Embraced by the Kubitschek administration, a new style of economic development was establish in the second half of the 1950s, the 'triple alliance' of the state, domestic capital, and international capital in the form of foreign direct investment by transnational corporations.

Using Nitzan's concept of differential accumulation, which integrates power into the definition of capital to reveal capital's power to not just increase productivity but to restructure society and effect its overall development, the costs of such an alliance became quickly apparent: foreign direct investment grew and local manufacturing became increasingly foreign owned. While a nationalist reaction to the denationalization of Brazil's industrial structure was expressed in the early 1960s through Goulart's brief regime, it was quickly quashed by a military coup that took control to ensure the continued domination of capitalist interests, both domestic and foreign.

With the Generals firmly in control, Brazil became attractive once again to foreign investment. Newfarmer's (1979) analysis of FDI in the 1970s supported Nitzan's proposition of differential accumulation through merger and acquisition by using a theoretical lens that also placed power at the centre of the analysis, and revealed how TNCs rapidly stepped in again to control the most dynamic sectors of Brazil's productive economy. Newfarmer also warned that by not regulating foreign takeovers of domestic companies, the Brazilian government risked losing control over key sectors of its economy. Anglade's (1985) analysis supported Nitzan's second proposition of differential accumulation through stagflation when his analysis identified how TNC's used their market power to raise prices in anticipation of inflation, driving inflation up further. Anglade argued that economic policies of the military regime of the 1970s reinforced the oligopolistic tendencies of Brazilian industry, concentrated production in the hands of a few TNCs in key industrial sectors, denationalized key productive sectors and put inflationary pressures on the economy. The debt crisis of the 1980s and the loss of control of the balance of payments put an end to the myth of the triple alliance, and an end to the military regime.

My analysis of FDI during the era of the Washington Consensus revealed how privatization of SOEs and the acquisitions of domestically held companies by TNCs have dramatically altered the ownership structure of Brazil's industrial landscape. Based on a highly popular stabilization policy (the Real Plan) that briefly conquered inflation and opened the economy to cheap imports, Cardoso became the first president in Brazil to receive broad electoral support. While Collor had attempted to support domestic elites in their effort to buy stock in privatized companies that led to a new pattern of shared control of some enterprises, Cardoso abandoned this privatization model in favour of auctioning controlling blocks of shares to foreign investors. While the main objective of the privatization program was debt reduction, Cardoso's monetary policies kept interest rates high to attract foreign investment and the domestic currency overvalued to prevent inflation, leading to cumulative denationalization and an exploding debt. Based on the legitimacy bestowed on him for his stabilization plan, he was able to use the huge influx of FDI in his second term to allow the financing of higher current account deficits, postponing devaluation until most of the major SOEs had been auctioned off.

Placing Nitzan's concept of capital as power at the centre of the analysis reveals the true costs and full implications of this massive transfer of assets from state and domestic capital control to foreign control. While Siffert Filho (1999) tries to put a positive spin on the notion of shared control as a new pattern of corporate ownership that offers domestic capital an opportunity to diversify their activities and form partnership with TNCs so they can leverage the technology and expertise they need to compete on international markets, even he admits that the privatization process is proving to be just the starting point of a corporate restructuring that drives future acquisitions, leading to increased concentration and denationalization. Siffert-Filho's analysis reports that by 1999 foreign investors owned 34 of Brazil's largest 100 companies, and was earning 40 percent of this group's total revenues. This does not include the foreign investors who own a dominant share of 19 others of the top 100 companies, which he has classified under 'shared ownership.'

Rocha and Kupfer's (2002) research revealed that the vast majority of the 1,149 transactions they analyzed were acquisitions in which more than 50 percent of company stock was acquired. There were very few mergers. TNCs increased their market share in almost all sectors over the last decade, the most striking advance being in the technology-intensive sector, where their participation increased to 86.9 percent. This is the same technology and capital goods sector Cardoso referred to in his analysis of dependent development in the 1960s and 1970s, where dependency was described as foreign control over an economy's ‘production of the means of production.’ In this sector, domestic capital dramatically lost market share, from 38.8 percent in 1991 to 13.1 percent in 1999.

While Siffert-Filho looked at the opportunities privatization and partnership offered to domestic capital, Rocha and Kupfer revealed just how much they had lost. Rather than taking the opportunity to diversify, Rocha and Kupfer found domestic capital hunkering down, using a defensive strategy of cost cutting, weakening their enterprise and making it a prime candidate for takeover. They found that those acquiring firms were not diversifying but adopting a specializing strategy, leading to further concentration.

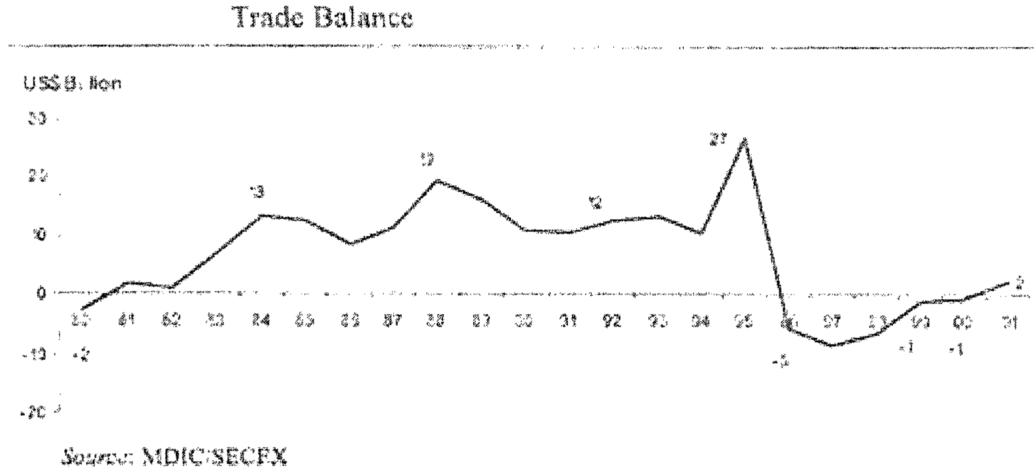
By the end of the 1990s, Rocha and Kupfer report that TNCs have come to dominate the whole industrial structure, leaving domestic capital in control of the same sectors of production they controlled at the turn of the twentieth century – primary exports. The following chapter examines the socio-political limits of this form of capitalist expansion as expressed by the election of Lula.

Table 3.1: Balance of Payments (US$ millions)

Year	Exports	Imports	Trade Balance	Net Interest	Services Total	Current Account	Capital Account	Balance of Pay-ments	Gross Debt
1950	1,359	943	425	-209	-283	140	-65	52	559
1955	1,419	1,099	320	-230	-308	2	3	17	1,445
1959	1,282	1,210	72	-257	-373	-311	`82	-154	2,234
1960	1,270	1,293	-23	-304	-459	-478	58	-410	2,372
1965	1,596	941	655	-188	-362	368	-6	331	3,927
1969	2,311	1,933	378	-367	-630	-281	871	549	4,403
1970	2,739	2,507	232	-462	-815	-562	1015	545	5,295
1975	8,670	12,210	-3,540	-1,429	-3,162	-6,700	6189	-950	21,171
1979	15,244	18,083	-2,839	-2,378	-7,920	-10,742	7657	-3,215	49,904
1980	20,133	22,954	-2,821	-6,311	-10,152	-12,807	9679	3,472	53,847
1985	25,642	13,154	12,487	-9,659	-12,877	-242	-2554	-3,200	95,857
1989	34,383	18,263	16,120	-9,633	-15,331	1,033	-4179	-3,077	114,741
1990	31,414	20,661	10,753	-9,748	-15,369	-3,782	-5616	-8,825	123,439
1991	31,620	21,041	10,579	-8,621	-13,542	-1,407	-4463	-4,679	123,910
1992	35,862	20,554	15,308	-7,353	-11,339	6,144	24877	30,028	132,259*
1993	38,597	25,659	12,938	-8,280	-15,585	-592	10115	8,404	145**
1994	43,545	33,105	10,440	-6,338	-14,743	-1,689	14294	12,939	149**
1995	46,506	49,664	-3,158	-8,158	-18,594	-17,972	29359	13,480	159**
1996	47,747	53,301	-5,554	-9,840	-21,707	-23,347	32148	8,774	180**
1997	52,990	61,347	-8,357	10,391	-26,897	-33,054	25864	-7,865	199**
1998	51,120	57,594	-6,484	-11,948	-28,798	-33,611	25641	-7,970	243**
1999	48,006	49,212	-1,206	-15,168	-25,212	-24,375	16557	-7,822	236**

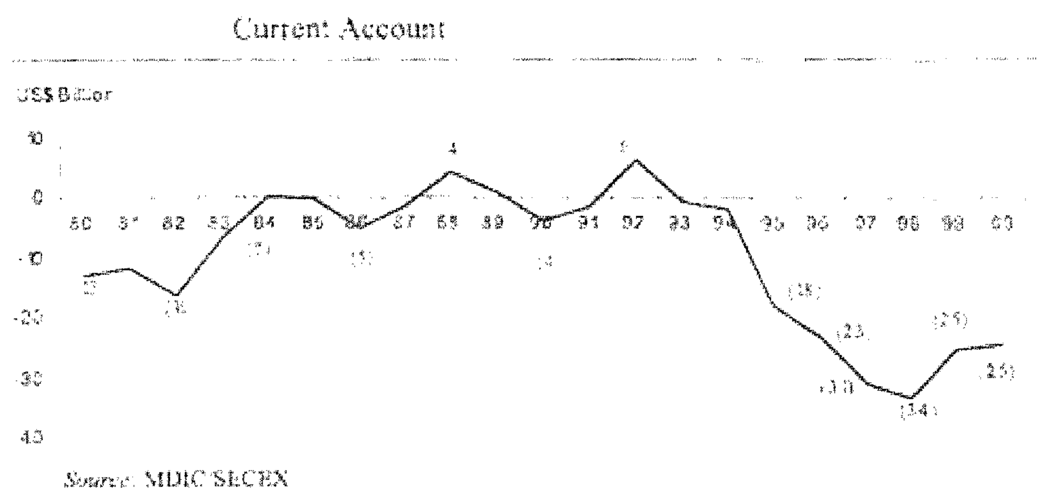
Source: Baer (2001:468 Table A-4).
*March 1992.
** US $ billions.
All amounts rounded.

Graph 3A: Trade Balance (1980 – 2001)



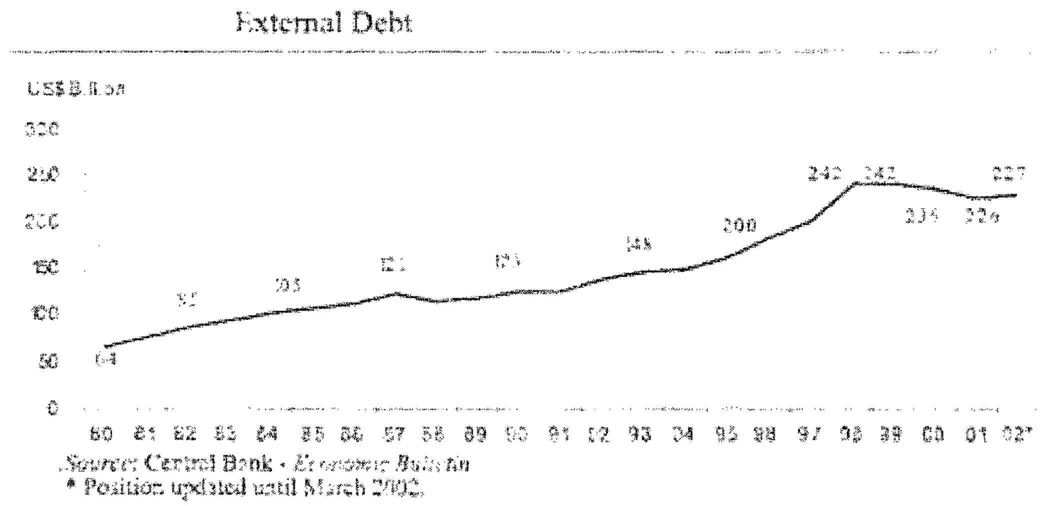
Source: Font (2003: 213 Figure D-36).

Graph 3B: Current Account (1980 – 2000)



Source: Font (2003: 214 Figure D-37).

Graph 3C: External Debt (1980 – 2002)



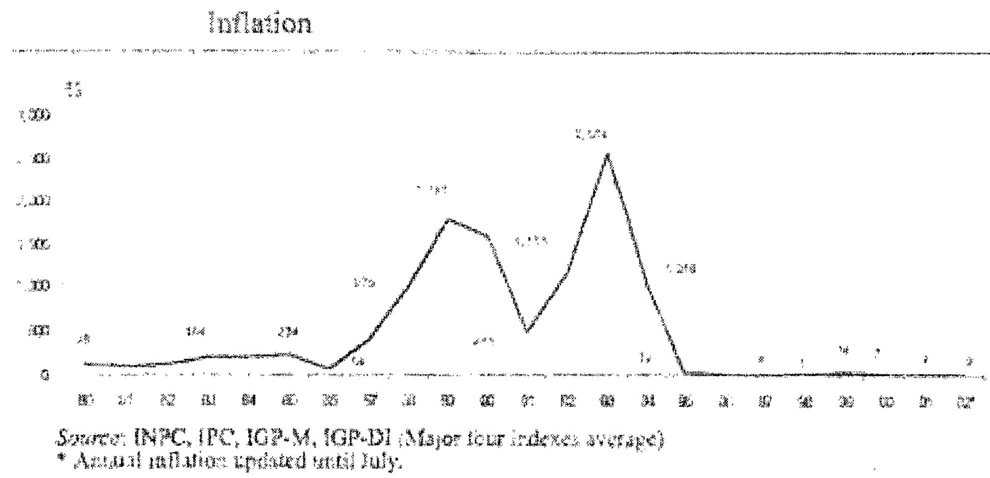
Source: Font (2003: 214 Figure D-38).

Table 3.2: GDP, DGP/Capita, Inflation Rate; Nominal Interest Rate

Year	GDP Growth Rate (%)	GDP Per Capita (1988 US$)	Inflation Rate (%)	Interest Rate (Nominal) (%)
1950	6.8		9.2	
1955	8.8		11.8	
1959	9.8		35.9	
1961	8.6		34.7	
1962	6.6		50.1	
1964	3.4		89.9	
1970	10.4		16.4	
1975	5.2		33.9	21.86
1979	7.2		55.8	42.57
1980	9.20	2,291	110.00	46.35
1981	-4.50		95.00	89.27
1983	-3.50		211.00	191.34
1985	7.90	2,235	235.00	272.81
1987	3.60		416.00	353.00
1989	3.30	2,233	1,783.00	2,407.40
1990	-4.40	2,233	1,476.71	1,033.22
1991	1.10	2,212	480.23	536.33
1992	-0.90	2,151	1,157.84	1,059.15
1993	4.92		2,708.17	3,488.45
1994	5.85	2,970	1,093.89	1,153.60
1995	4.22	3,640	14.78	53.08
1996	2.66		9.34	22.73
1997	3.60	4,720	7.48	37.19
1998	-0.12	4,570	1.70	24.59
1999	0.80		19.98	27.34

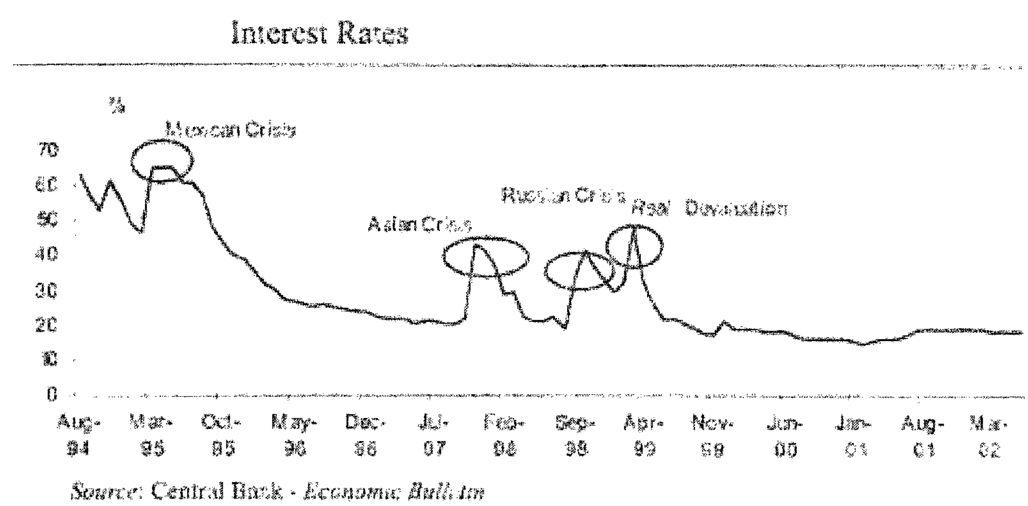
Source: GDP; GDP per Capita: Baer (2001:462, Table A1).
Inflation Rate; Nominal Interest Rate: Baer (2001: 470, Table A5).

Graph 3D: Inflation (1994 –2002)



Source: Font (2003: 195 Figure D-1).

Graph 3E: Interest Rates (1994 – 2002)



Source: Font (2003: 196 Figure D-3).

Table 3.3: Percentage of Assets of Largest 300 Manufacturing Firms: (1972)

1972	US TNCs %	Other Foreign TNCs %	Total Foreign TNCs %
Food	2	30	32
Textiles	6	38	44
Metal Fabrication	4	21	25
Nonmetallic Ores	11	11	22
Chemicals	34	35	69
Rubber	100	0	100
Non-electrical Machinery	34	40	74
Electrical machinery	22	56	78
Transportation Equipment	37	47	84
Total Manufacturing	**16%**	**34%**	**50%**

Source: Gereffi and Evans (1980:41).

Table 3.4: TNC Takeovers in Brazil (1945 –1975)

Brazil: Percent of new US manufacturing affiliates established by acquisition

	All Industries		Electrical Industry	
Time period	**% By acquisition**	**Total number**	**% By acquisition**	**Total number**
Prior to 1945	0	28	0	3
1946 to 1950	9	11	0	1
1951 to 1955	22	22	0	3
1956 to 1960	33	36	100	3
1961 to 1965	38	16	100	1
1966 to 1970	52	46	100	1
1971 to 1972	61	18	33	3
1973 to 1975a	66	65	b	b
Total	**42%**	**242**	**40%**	**15**

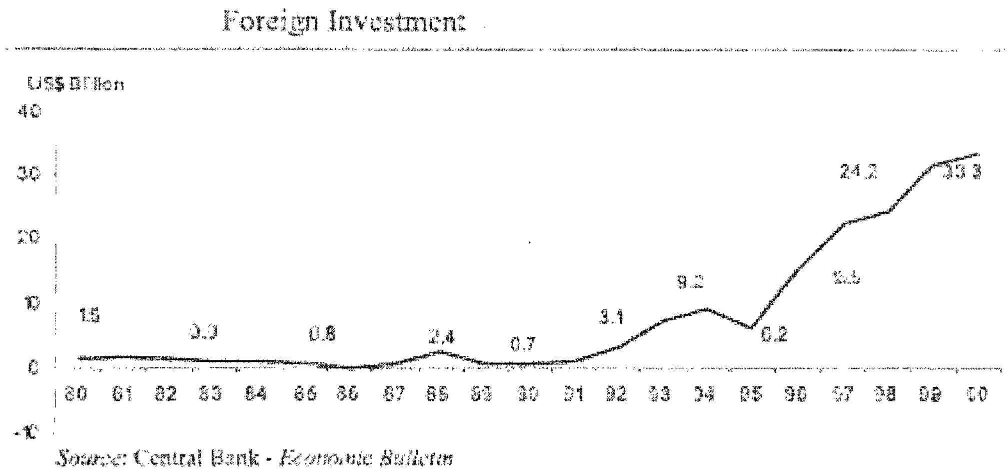
Source: R. S. Newfarmer (1979:27).
a. Figures for this period are based on a slightly different, but comparable sample, and do not include firms for which mode of entry was unknown.
b. Not available.

Table 3.5: Inflows of Foreign Direct Investment (1970 –1984)
In millions of dollars; in constant 1980 prices

	Annual Averages						
	1970-74	**1975-79**	**1980-84**	**1981**	**1982**	**1983**	**1984**
Brazil	1,916.8	2,480.3	2,279.4	2,658.7	3,176.4	1,768.8	1,880.0

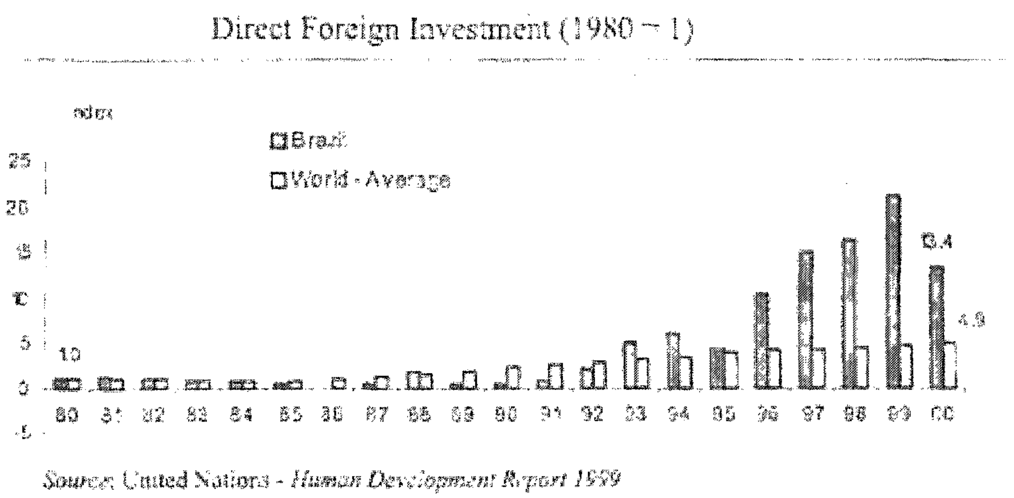
Source: United Nations Centre on Transnational Corporations,
Foreign Direct Investment in Latin America: Recent Trends, Prospects and Policy Issues. Series A, No. 3, 1986.

Graph 3F: Foreign Investment (1980 – 2000)



Source: Font (2003: 215 Figure D-40).

Graph 3G: Foreign Direct Investment (1980 – 2000)



Source: Font (2003: 217 Figure D-43).

Table 3.6: Privatization in Brazil: 1990 – 1994

A. Sale proceeds by investor (US$ millions)

Type of Investor	Sale proceeds	Percent
Domestic companies	$ 3,116	36%
Financial institutions	2,200	25
Individuals	1,701	20
Pension Funds	1,193	14
Foreign investors	398	5
Total	**$ 8,608**	**100%**

Source: Privatization in Brazil: 1990 – 2002, *BNDES.*

B. Sales results by sector (US$ millions)

Sectors	Companies	Sales Proceeds	Transferred Debt	Total
Steel	8	5,562	2,625	8,167
Petrochemical	15	1,882	296	2,178
Fertilizers	5	418	75	493
Other	4	350	269	619
Decree 1,068	-	396	-	396
Total	**33**	**8,008**	**3,266**	**11,674**

Source: Privatization in Brazil: 1990 – 2002, *BNDES.*

Table 3.7: Privatization in Brazil: 1995 – 2002

A. Sale results by investor (US$ millions)

Type of Investor	Sale proceeds	Percent
Foreign investor	$ 41,737	53%
Domestic companies	20,777	26
Domestic financial sector	5,158	7
Individuals	6,316	8
Private pension funds	4,626	6
Total	**$ 78,614**	**100%**

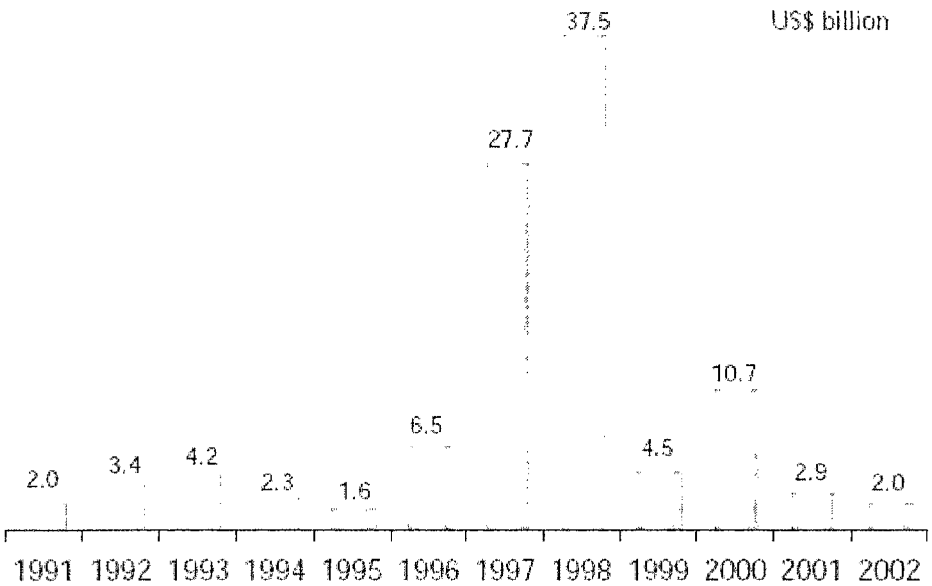
Source: Privatization in Brazil: 1990 – 2002, *BNDES.*

B. Sales results by sector (US$ millions)

Sectors	Sale Proceeds	Transferred Debt	Total Results
Industry	10,852	4,265	15,117
• [illegible]	[illegible]	[illegible]	[illegible]
• [illegible]	[illegible]	-	[illegible]
• [illegible]	[illegible]	[illegible]	[illegible]
Infrastructure/Services	63,281	10,545	73,826
• [illegible]	[illegible]	-	[illegible]
• [illegible]	[illegible]	[illegible]	[illegible]
• [illegible]	[illegible]	-	[illegible]
• [illegible]	[illegible]		[illegible]
• [illegible]	[illegible]	[illegible]	[illegible]
• [illegible]	[illegible]	[illegible]	[illegible]
• [illegible]	[illegible]	-	[illegible]
Minority Stockholders	4,481	-	4,481
• [illegible]	[illegible]	-	[illegible]
• [illegible]	[illegible]	-	[illegible]
Total	78,614	14,810	93,424

Source: Privatization in Brazil: 1990 – 2002, *BNDES.*

Table 3.8: Privatization in Brazil: 1990 – 2002
Annual Evolution (US$ billions)



Source: Privatization in Brazil: 1990 – 2002, *BNDES.*

Table 3.9: Privatizations in Brazil: 1990-2002
Accumulated Results (US$ millions)

Period	**Sale Proceeds**	**Transferred Debt**	**Total Results**	
1990-1994	8,608	3,266	11,874	11.2%
1995-2002	78,614	14,810	93,424	88.8%
Total	**87,222**	**18,076**	**105,298**	**100.0%**

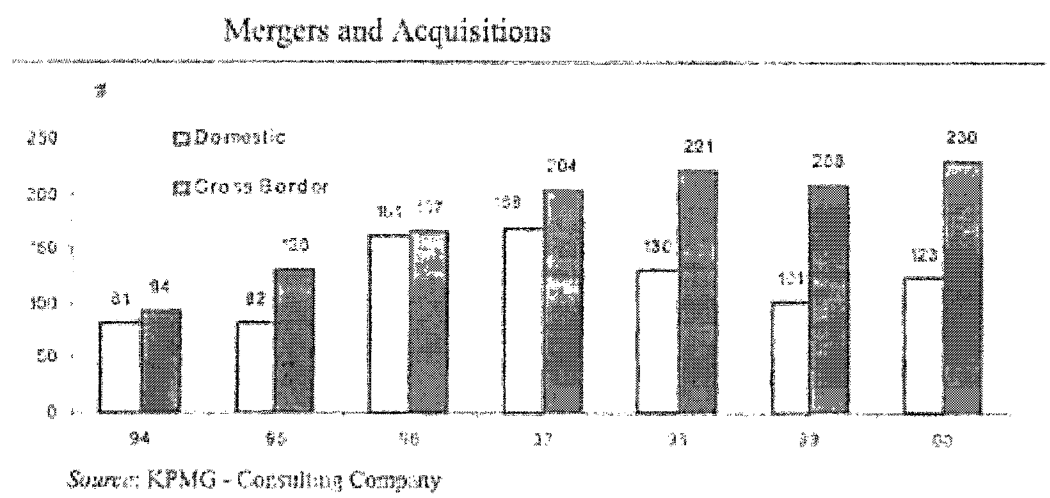
Source: Privatization in Brazil: 1990 – 2002, *BNDES.*

Table 3.10: Foreign investment in Brazil (1994-1998)
Total, for the acquisition of existing firms, and remittances abroad

Year	Total (US$ billions) (A)	For Acquisition of existing firms (US$ billions) (B)	[(B)/(A)] Percent	Remittances Abroad (US$ billions)
1994	2.1	0.008	0.38%	2.5
1995	5.5	1.5	27.3	2.6
1996	10.5	3.1	29.5	2.4
1997	18.7	10.4	55.5	5.6
1998	**28.7**	**21.3**	**74.1%**	**7.2**

Source: SOBEET (Brazilian Society for the study of transnational Companies), Central Bank and Conjuntura Ecomomica, as published by Folha de Sao Paulo (October 3, 1999). *In* Macedo, R. 2000. Privatization and the distribution of assets and income in Brazil. *Carnegie Endowment for International Peace.* Working Papers. Number 14, p.14.

Graph 3H: Mergers and Acquisitions (1994 – 2000)



Source: Font (2003: 197 Figure D-5).

Table 3.11: Ownership of 100 largest non-financial companies: 1990, 1995, & 1997

(In brackets: percentage of cumulative revenues for the 100 largest companies)

	Dispersed ownership	Dominant Minority Ownership	Family Ownership	State Ownership	Foreign Ownership	Cooperative Ownership
1990	1 (0%)	5 (4%)	27 (23%)	38 (44%)	27 (26%)	2 (2%)
1995	3 (2%)	15 (11%)	26 (17%)	23 (30%)	31 (38%)	2 (2%)
1997	3 (2%)	19 (12%)	23 (16%)	21 (32%)	33 (37%)	1 (0%)
1998	4 (3%)	23 (19%)	26 (17%)	12 (21%)	34 (40%)	1 (0%

Source: Siffert Filho, N. (1999:21).

Table 3.12: Shares of Sales by Origin of Capital

Sector	Year	SOE (%)	TNC (%)	PNE (%)
Commodities Industry	1991 1996 1999	42.4 22.6 25.8	21.2 29.4 33.1	36.5 47.9 41.1
Technology-intensive Industry	1991 1996 1999	0.8 0.0 0.0	60.3 75.6 86.9	38.8 24.4 13.1
Traditional Industry	1991 1996 1999	0.0 0.0 0.0	36.5 44.6 48.5	63.5 55.4 51.5
Industry Total	**1991** **1996** **1999**	**20.5** **9.9** **12.5**	**36.0** **48.2** **53.5**	**43.5** **42.0** **34.0**
Infrastructure Services	1991 1996 1999	74.1 76.9 42.9	16.9 12.5 32.2	9.0 10.6 24.9
Other Services	1991 1996 1999	1.1 4.4 5.4	7.8 18.2 27.1	91.1 77.4 67.5
Financial Services	1991 1996 1999	56.5 39.0 34.3	8.0 6.4 21.3	35.5 54.6 44.4
Services Total	**1991** **1996** **1999**	**55.5** **46.4** **33.0**	**9.4** **10.5** **26.1**	**35.1** **43.0** **40.8**

Rocha and Kupfer (2002:506, Table V)

Commodity Industry: stone, clay, glass and concrete; metal and metal products; mining; paper and allied products; oil, gas and petroleum refining; chemicals and allied products; rubber and misc. plastic products; agriculture, forestry and fishing.

Technology-intensive industry: electronic and electrical equipment; transportation equipment; drugs and machinery

Traditional Industry: food and kindred products; printing, publishing and allied services; textile and apparel products

Infrastructure services: electricity, gas and water distribution; transportation and shipping (except air); and telecommunications

Other services: wholesale trade; retail trade (food stores); radio and television broadcasting; business services and advertising services

Financial Services: Commercial banks, insurance firms, and investment firms.

Notes

[1] I use Gereffi and Evans' (1980: note 5) definition of a transnational corporation (TNC): any business enterprise engaging in direct foreign investment in production facilities spanning several national jurisdictions. The parent firm of the TNC and its network of affiliates are bound together by common ties of ownership, they draw on a common pool of human and financial resources, and they respond to some sort of common strategy.

[2] I use Gereffi and Evans' (1980: note 4) definition of Foreign Direct Investment (FDI), which they refer to as Direct Foreign Investment (DFI): Foreign investment is of two types: direct and indirect. Direct foreign investment refers to the acquisition or control of productive facilities outside the home country. Control is generally thought to mean at least 25 percent participation in the share capital of a foreign enterprise, although the published U.S. Department of Commerce data are based on equity holdings as low as 10 percent. There are two kinds of indirect foreign investment: (a) international portfolio investment, which refers to the purchase of securities issued by foreign institutions without associated control over or management participation in them, and (b) public loans to foreign countries. Portfolio investments typically take the form of bonds, whereas direct foreign investment entails control of enterprises.

[3] I use Gereffi and Evans' periodization because it divides Brazil's history into four periods that are each characterized by a specific model of development. This enables me to examine the structure of each model as a moment in the social relations of production, the role played by FDI in each structure, and the socio-political limits of each model of development as expressed through class struggle.

[4] Gereffi and Evans (1980:31) subscribe to Wallerstein's (1974) world systems approach, and so categorize Brazil as being part of the semiperiphery: "membership in the semiperiphery implies both a definite *structural position* in the international division of labour and an historical process of development leading from the periphery to the semiperiphery." I do not subscribe to this approach, as it conflicts with Cardoso and Faletto's view of capitalism as one world system. Cardoso and Faletto reject the centre/periphery paradigm and any notion of a staged approach to development, which infers a form of determinism (see chapter two of my thesis). My own approach aligns with Cardoso and Faletto's.

[5] This historical account is very brief and therefore highly stylized. Information on Brazil from 1880 to 1979 has been synthesised from: Anglade and Fortin 1985; Anglade 1985;Gereffi and Evans 1980; Cardoso and Faletto 1979; Evans 1979; Gomes 1986, Maddison 1992.

[6] As allowed by Instruction 113 of SUMOC (the monetary and credit authority). See Anglade (1985:57).

[7] When examining corporate profits and remittances from subsidiaries to parent companies, Baer (2001: 245) identifies an important caveat. The 'broad earnings' (which Newfarmer describes as "after tax earnings plus royalties, payment for management services and other intangibles") could well include what Baer suggests: "many multinationals are suspected of secretly transferring profits back to the parent company by engaging in transfer pricing, that is, a situation where the parent company overcharges the subsidiary for certain imported inputs. Additional motivation for the use of transfer pricing (other than avoiding limits placed by developing countries on profit remittances) are to escape from taxes and the desire to leave the impression of a lower-than-actual profit rate for public relations purposes. Of course multinationals deny the practice of transfer pricing and its is extremely difficult, if not impossible, to produce conclusive proof of its use."

[8] According to Newfarmer (1979: 26), American TNCs in the electrical industry displayed about the same propensity to acquire other firms as their counterparts in other industries did world-wide and in Brazil.

[9] When the military regime came to power in 1964, two financing mechanisms were instituted to attract TNCs, which allowed them to circumvent the domestic policy of credit restriction. The first was Instruction 289 of SUMOC, which allowed a direct credit line between parent and local subsidiary. This mechanism was revoked in 1972. The other was Law 4131 that permitted TNCs to borrow from the Euromarkets. In 1964, the provision of Law 4131 to restrict profits was revoked so that reinvested profits could once again be included in the "capital base" figure on which allowable remittances were calculated. The limit for remittances was also increased from 10 to 12 percent (See Rocha 1994: 78).

[10] The Brazilian government began to rectify this situation by establishing the BNDES (Brazilian Development Bank) in 1952. However, according to Newfarmer (1979:28) this was not sufficient to equalize the competition in financial markets between Brazilian and TNCs. The majority of BNDES resources came from forced savings, especially employee pension funds, which accounted for an average of two-third of BNDES liability (excluding stock-holder equity) by 1980 (Frieden 1987: 110).

[11] With their access to international financial markets, TNCs were the largest private borrowers, and accounted for 75.1 percent of long-term currency loans in 1972. Frieden (1987: 113) notes that gross borrowing by TNCs of nearly $15 billion was made between 1972 and 1980. This amount was much larger than the increase in the stock of foreign direct investment in the period.

Although foreign borrowing slowed during the world recession of 1974, it was not until 1978 that the majority of foreign loans (60.2 percent) were contracted by the state (Rocha 1994: 79).

[12] To be fair to Evans, Anglade (1985:134 note 108) notes in a footnote the at the "modest optimism" Evans (1979) showed concerning this alliance was considerable watered down in his later article Gereffi and Evans (1981). On the other hand, Frieden (1987:100) called the triple alliance the "growth coalition" of the post-1964 regime and is of the opinion that it succeeded extraordinarily well until the 1980s.

[13] See also Pinheiro (1994: 737-734) for s similar analysis of privatizations in the 1980s.

[14] Law 8031, establishing the PND April 12, 1990, stipulated that a foreign investor could acquire no more than 40 percent of the voting capital, unless otherwise authorized by a vote in Congress; a company had to be held for two to three years, if majority control was held by a foreign investor; capital converted in the privatization process could not be repatriated for six years (Pinheiro 1994:742).

[15] Law 8031 had six objectives: (1) to re-establish the strategic position of the state in the economy; (2) to contribute to the reduction of the public debt; (3) to make room for increased investment in companies transferred to the private sector; (4) to contribute to the modernization and competitiveness of the industrial sector; (5) to allow the public sector to concentrate its efforts on national priorities; (6) to strengthen capital markets, increase the supply of securities and democratize capital ownership (Macedo 2000:2).

[16] By elites, Valesco Jr. (n.d.:10) means congressmen, public administrators, businessmen and union leaders.

[17] This paper was accessed on the BNDES website on 30 March 2004, the paper is not dated. There are however, footnotes that refer to papers he had written in 1997, so this paper would have been published after this date.

[18] A manifesto presented by the 1200 members of the industrial bourgeoisie belonging to Movimento Brazil S.A. supported the reforms, in which they state, "(1) privatization should be accelerated in order to reduce the role of the state in the economy, (2) deregulation and the internationalization of the economy are prerequisites for the free functioning of the market and the incorporation of the country, with dignity, into the new international context, and (3) the Brazilian entrepreneur supports the liberal position of the economy minister and is convinced of that this is the path towards economic growth (from the Gazeta Mercantil 1992, quoted from Rocha 1994, p.89).

[19] Such schemes included debt-equity swaps, where debts of state-owned companies were sold at highly discounted prices to investors in the privatization program, and then accepted by the government for their full face value as payment. This form of "privatization currency" represented 81 percent of the total proceeds obtained from the sale of SOEs between 1990 and 1994 (BNDES 2002:9). This form of payment was also known as securitizated debt, "junk money" and "rotten paper."

[20] The loans to through the BNDES to TNCs was controversial because a major source of funds for the BNDES comes from worker' compulsory savings program and not foreign loans. See G. Rocha (1994: 90-91) for her perspective on issues associated with the BNDES providing credit to TNCs.

[21] Saad-Filho 2002: 123-124; also see chapter one, note 49 for a brief explanation of how this worked.

[22] In terms of democratization of capital, some upper and middle class workers employed by the privatized SOEs benefited when they participated in manager-employee buyouts and when unfunded pension funds were moved with the privatized company to become funded, although these transfers also came with costs. These costs included lower prices offered for companies with unfunded pension plans, and new rules for pension plans negotiated with privatized workers, who had lost bargaining power through the privatization process. As a result of these negotiations, workers found the costs of the pension plan shifted from new owners to workers through higher contributions and lower benefits. The poorest Brazilians, of course, gained no benefit from the privatization program (see Macedo 2000:13).

[23] Siffert Filho uses data compiled by KPMG, Porvenir Online and the BNDES.

[24] Thomsen, S and Pedersen T. (1995) European models of corporate governance. *Working Paper* 4-95. Copenhagen, Institute of International Economic and Management, Copenhagen Business School.

[25] Dispersed ownership: where no entity or individual has over 20 percent of voting capital. Dominant minority ownership (shared control): where a single owner holds between 20-50 percent of voting capital. Family ownership: where an individual or family owns more than 50 percent of voting capital (includes private foundations). State ownership: where government holds the majority of voting capital. Foreign ownership: where TNCs hold the majority of voting capital. Cooperatives: where a group or cooperative owns a majority of voting capital.

[26] Rocha and Kupfer used two sources of data, information published by Balanco Annual da Gazeta Mercantil and data collected Thomson Financial Securities Data. The collected data on the largest corporation based on sales above

US$35 million, and used the Herfindahl-Hirschman Index (HHI) as an indicator of economic concentration among leading companies in each sector. Data involving the value of the transactions was not used because it is not reliable, due to the fact that private transactions between companies with no state involvement were not generally reported.

[27] Only 22 percent of transactions involved acquisitions of less than 50 percent of the stock, and only 10 percent involved the purchase of less than 25 percent of the stock.

[28] In the commodity sector, Rocha and Kupfer included: stone, clay, glass and concrete; metal and metal products; mining; paper and allied products; oil, gas and petroleum refining; chemicals and allied products; rubber and misc. plastic products; agriculture, forestry and fishing.

[29] This results from using the HHI methodology of dividing all companies into seven sectors, which provides a more aggregate view.

Chapter 4: The socio-political limits of foreign capitalist expansion in Brazil

Introduction

The purpose of a historical-structural analysis is to show how economic, social and political developments are related. In the proceeding chapter, I analyzed the historical dimensions of foreign corporate ownership in Brazil. I placed Nitzan's concept of capital as power at the centre of the analysis to demonstrate that a shift in corporate ownership at the end of the 1990s was not simply a means of improving productivity, but a shift from domestic to foreign control of some of the most dynamic sectors of the Brazilian industrial structure. In this chapter, I present a historical-structural analysis that examines the socio-political limits of this shift in control, not from the perspective of capital as power, but from the perspective of class struggle, hegemony and a democratically elected leader's capacity to govern. I argue that the electoral loss of Cardoso's political party and the election of Lula is the expression of a crisis of hegemony related to the limits of foreign capitalist expansion in Brazil, and a rejection of the Washington Consensus development paradigm.

To this end, I first bring forward the key elements of Cardoso's understanding of dependent development under the military regime of the 1970s, and how this underpins Cardoso's acceptance, when he became president, of the Washington Consensus and its development model. Next, I examine how Cardoso and his social democratic party came to power, and the institutional factors that supported his government's elite-led style of leadership, which contributed to

Cardoso's failure to construct hegemony. I then analyze the rise of Lula and the PT and their strategy to create a new hegemony, a strategy that ultimately enabled them to include disenfranchised members of Brazil's capitalist classes in the historic bloc needed to come to power. To understand why Lula was able to convince members of Brazil's capitalist class to support his bid for the presidency, I examine the political preferences of Brazil's domestic elites and how those elites are both organized and fragmented as a class. I analyze how they responded to Brazil's transition to democracy and then to the implementation of Cardoso's development model. Finally, I examine how they responded as a class to Lula's new hegemony, leading some of its members to abandon Cardoso's development model in favour of Lula and an alternative. To do this requires that I place Gramsci's concept of hegemony at the centre of this analysis.

Cardoso, dependent development and the Washington Consensus development paradigm

In chapter two of this thesis, I demonstrated that as academics in the 1960s and 1970s, Cardoso and Faletto grounded their theoretical understanding of capital, class and the state within a Marxist and Gramscian framework and defined development as a process of class struggle (Cardoso and Faletto 1979:x). In their historical-structural analysis of Brazil's situation of dependency, they identified three important factors that characterized Brazil's situation of dependent development. The first was that there was no inherent contradiction between development and dependency, as long as development was understood as the progress of productive forces (Cardoso and Faletto 1979:xxiv). Dependency was characterized by an economy's reliance on another economy to provide it with the "production of the means of production" (technological innovation and capital goods) (Cardoso and Faletto 1979:xxiii). Once provided with these inputs, the dependent country could develop its productive forces and become an increasingly advanced capitalist society, which they reminded us, was not to be confused with a more egalitarian society (Cardoso and Faletto 1979:173; Cardoso 1972:89 and Cardoso 1973:157).

The second characteristic of Brazil's dependent development was the nature of the national bourgeoisie, which they identified as weak and incapable of forming its own hegemonic project. Cardoso (1973:163) likened the national bourgeoisie to a child of dependent development, believing that its role was limited to integrating itself into the scheme of international capital as a "dependent and minor partner." He considered this limitation to be an objective one, a consequence of absorbing capital-intensive, labour-saving technology, which returns capital to the advanced economy through technology rents and repatriation of profits. The third characteristic of dependent development was the role of the state under the control of an authoritarian-bureaucratic (military) regime. Cardoso and Faletto, within their Marxist/Gramscian framework, understood the state as an arena of struggle. However, they recognized that under military rule, "the dominant classes were reordered, with the emphasis placed on the repressive role of the state and on the simultaneous transformation of the state into a tool for the fortification of the capitalist economic order" (Cardoso and Faletto 1979:200).

Cardoso and Faletto (1979:216) then discussed the contradictions between the interests of people and the style of development, and between the nation and the state, and stated: "if any cultural dimension exists and carries significance, it is what Gramsci called the relationship of hegemony: the capacity to rule." They recognized that the battle between classes and relationships of dependency find their natural crossroad in the state: "the contradiction of a state that constitutes a nation without being sovereign is the nucleus of the subject matter of dependency" (Cardoso and Faletto 1979:200).

In a later article, Cardoso (1989:300)[1] struggles with this contradiction, and attempts to reconcile his theory of associated-dependent development with democracy. He closely examines Marx and Gramsci's understanding of political society and civil society, and how Gramsci, by placing the moment of hegemony at the level of civil society, dissolves the rigid Marxian distinction between structure and superstructure (Cardoso1989:308). Cardoso accepts Gramsci's concept of hegemony, as well as the primacy Gramsci gives to the political party as the place of mediation between idea and interest (Cardoso1989:318). However, as an intellectual committed to the dialectic, Cardoso is equally convinced that this mediation takes historically variable forms, and that to reconcile dependency with democracy in Brazil, would require a new theoretical framework, one that explains the state (through state-owned enterprises) as a producer and a key member of the Brazilian manufacturing and service sector (Cardoso 1989:319). Just as Cardoso had rejected modernization theory, he rejected any notion that Gramsci's theories could be transposed directly from Europe to Latin America.

This article also reveals Cardoso's determination not to rethink development but to explain how dependent development or associated-dependent development would continue under a democratic rather than a military regime. In the article, Cardoso clearly accepts the notion that to construct a new hegemony in Gramscian terms would require the construction of a new historic bloc. Cardoso is also well aware that a historic bloc is not simply an alliance amongst the capitalist classes, as it was under the military regime, but that it is an alliance of different class forces. Despite this awareness, however, when Cardoso became president, he brought with him his understanding of development and dependency from the 1960s and 1970s, and did not attempt to change any of the characteristics that he theorized defined Brazil's situation of dependency. Instead, Cardoso found a development model in the Washington Consensus that reproduced his thesis of dependent development. Here he found a model that ensured Brazil's dependent economy would continue to rely on others (TNCs) to provide it with the production of the means of production, and would continue to diminish the role of the national bourgeoisie to that of internalizing external interests. Perhaps most egregious, he found a development model that supported the Brazilian tradition of elite-led politics. Rather than build a mass-based party and a new hegemony to support Brazil's new democracy and find new ways to address social, political and economic development, Cardoso continued to reproduce a state that confused the public interest with the defense of capitalist interests, under the guise of a social democratic political party, rather than a military regime. In the next section, I examine this claim more closely, as I examine the political rise of Cardoso and his political party, the Partido da Social Democracia Braziliera (PSDB).

Cardoso and the PSDB

The PSDB is a political party founded in 1988[2] by a dissident group of members of the Partido do Movimento Democratico Brazileiro (PMDB), the political party that had grown out of the pro-democracy movement to defeat the military regime in an election in 1985.[3] Once elected, the PMDB quickly grew, as a large number of conservatives from the defeated pro-military party joined to share power in the newly formed democracy. The progressive sectors of the PMDB became increasingly alienated as the conservative wing of the party grew. With the resumption of political competition, factions within the PMDB could now consider forming their own party. Cardoso, a member of the PMDB, was also a member of a high-profile group of senators, deputies and governors known for their social democratic commitment to parliamentarism[4] and progressive social policies (such as promoting education and land reform), who left to form the PSDB, a party which identified strongly and explicitly with European-style social democracy (Power 2001:612).

In his analysis of the PSDB in relation to European social democracies, Timothy Power (2001:620) noted that unlike the European parties it is modeled after, the PSDB was created from the top down via a parliamentary faction, rather than from the bottom up via a mass-based labour movement. With several parties competing for social democratic space in Brazil, and with the PT already having a recognized association with the labour movement, "the PSDB was never able to overcome this very basic structural difference from its European models."

In its early years, the PSDB voted more often with the left than with the right.[5] Power (2001:621) points to analysis from union organizations, which ranked the party's voting record on issues of interest to workers, and business organizations that ranked the party's voting record on issues of interest to the private sector. Both found the PSDB only slightly to the right of the PT. In the first presidential election of 1989, the PSDB endorsed Lula. It joined all five Brazilian leftist parties plus the PMDB in an anti-Collor front, and generally supported left candidates in gubernatorial races (Power 2001:622). When Cardoso was invited to join Collor's cabinet, he declined. According to Power (2001:622), from its creation in 1988 to 1992, the PSDB was committed to a traditional social democratic policy line and consistently maintained a centre-left profile. According to Font (2001:15), one of the PSDB's main issues was its opposition to clientelism, a political practice where office holders or political candidates distribute resources in exchange for political support.[6]

The PSDB entered government when Collor was impeached and his vice president, Itmar Franco, became president in October of 1992.[7] Lacking Collor's ideological commitment to neoliberal reform, Franco appointed Cardoso in May 1993 as his fourth finance minister. While the PSDB was always known for its political elites (the politicians who had left the PMDB to form the PSDB), it was not known for having members with economic expertise. So, when Cardoso became finance minister, he brought with him an economic team. Cardoso spent the year laying the groundwork for his Real Plan, during which time he delegated considerable policy-making autonomy to his economic team while he focused on a campaign to build political support for his stabilization plan. The success of the Real Plan propelled Cardoso to the presidency in 1994, but as Power (2001:628) claims, "as a candidate and as a president he was clearly a prisoner of the plan's success – and by extension, of his chief economic officers." Let us examine this claim more closely.

Cardoso, who was a popular candidate in the state of Sao Paulo, had few connections or experience in the poorer sectors of the countries, such as the Northeast. Previous presidents (Sarney and Collor) had relied on veterans from the military regime in these poorer areas for political support, particularly from the conservative and clientelistic members of the Partido da Frente Liberal (PFL), the party which Cardoso claimed was "the very incarnation of backwardness" (Cardoso in Power 2001:622). In 1994, to the surprise and dismay of many in his party, Cardoso made an alliance with the PFL in order to win the election, a decision which enabled the PFL to take a strong presence in his government (Power 2001:624). With the influence of his economic team and the PFL, the ideological profile of Cardoso's party shifted sharply to the right: "In the space of seven years, the legislative PSDB moved from a position in which it was a natural coalitional ally of the left to one in which it is a natural coalitional ally of the centre-right" (Power 2001:625). As the party moved right, some of the PSDB's progressive members moved to competing parties on the centre-left.

Power (2001:630-631) also identifies institutional factors that contributed to the transformation of the PSDB from a social democratic party to a neoliberal one. First, Brazil has what Power describes as a very "permissive electoral system." This leads to the creation of a very large number of parties, with the largest generally holding no more than 20 percent of the seats in Congress. This system therefore requires coalitions to be formed in order to govern. The system also allows members to easily switch from party to party in search of improved electoral prospects. Just as the PMDB had acquired a large conservative wing after its election in 1985, the PSDB acquired the same after its election, leading progressives in the party to move to another party on the left. Power (2001:631) describes it as follows: "Like cells, Brazilian governing parties tend to grow and then divide. In their growth phase both the PMDB and the PSDB moved rightward." Second, Brazil has what Power (2001:631) calls an "executive-centred political system," a variant of the presidential system where the president is able to decree provisional measures with the force of law and reissue them at will. This makes it easier for a president to rely on his inner circle of technocrats rather than on the more difficult task of negotiating and creating coalitions around important pieces of legislation. The decree authority also insulated Cardoso's economic team and gave them considerable authority to implement policy before building the coalitions needed to support it.

Finally, Power (2002:631) points to the influence of Britain's New Labour and the Third Way[8] as an ideational factor that greatly influenced Cardoso. As the Third Way gained visibility and political influence in the 1990s, Cardoso became identified with the movement, which gave him international recognition and a "shield of legitimacy" for many of his policies (Power 2001:633). This shield worked internally, legitimizing neoliberal economic reforms in the eyes of conservatives, and externally by giving Brazil international prestige, which it otherwise rarely achieved. As Font (2001:18) claims, "Britain's "New Labour" politics and the Third Way as well as comparable movements in France, Germany, and the United States (under the Clinton Administration) provided important reference points." Cardoso's understanding of dependency and development of the 1960s, which understood development as the progress of productive forces, was not inconsistent with the either the Third Way or the Washington Consensus development paradigm. Dos Santos (1998) also makes this claim, that Cardoso's actions as president are not inconsistent with his views as a theoretician of dependent development.

In summary, the PSDB was a social democratic party formed by parliamentary elites without a base of support from labour unions, the traditional constituency for such a party. The institutional setting in Brazil made it easy to form parties, easy to switch parties, and therefore difficult to build and keep a loyal constituency. With power through decree centred in the executive offices of the president, it empowered technocrats over politicians, making it easier to formulate and implement economic policy than to build the coalition of support needed to sustain the commitment to these policies. International legitimacy bestowed by Third Way and the Washington Consensus reinforced Cardoso's originally held theories about dependent development and associated-dependent development, that dependency and development were not contradictory terms as long as development was narrowly conceived as the progress of productive forces. It was a combination that enabled Cardoso to enact policy without creating the coalition of social forces needed to legitimize his development model and his party's continued authority to govern in a democracy.

Lula and the Partido dos Trabalhadores (PT)

Politics in Brazil has always been the vocation of elites.[9] Even those with socialist or social democratic views have traditionally been associated with elite-led populist parties. Never had a party in Brazil emerged from below. The PT was different. As Margaret Keck explains (1992:3), it grew out of the conjuncture between a massive labour upsurge of the 1970s and a period of debate on the left about what kind of political party should be constructed in the transition to democracy. According to Keck (1992:3), as a party the PT had two vocations: as a socialist party it proposed sweeping social and economic policies to benefit workers and the poor, and as a participatory and democratic party it proposed a new way of doing politics, empowering those left out of the political process with a voice.

The PT as a party emerged from the labour strikes of 1978 and 1979. These strikes, sparked by the metalworkers of Sao Bernardo and Diadema, saw the emergence of publicly recognized working-class leaders like Sao Bernardo union president Luiz Inacio Lula da Silva. As explained by Keck (1992:67), the strikes convinced some union leaders that industrial action alone was not enough, as long as "the labour ministry and repressive apparatus could be counted upon to intervene on the side of the employers. If an industrial strike was to automatically be transformed into a political strike by the government response, then workers needed a political voice."

In 1979, the military government was preparing to disband the artificial two-party system it had created when it came to power in 1966, and allow new parties to be created.[10] A group of politicians and intellectuals (including Cardoso) from the main opposition party to the military government (MDB), approached Lula and other union leaders with the hope of creating a single umbrella party to defend interests opposed to the military regime. There was fear that creation of multiple small opposition parties would play into the hands of the military, prevent the election of an opposition party and delay the transition to democracy. After months of discussion, it became clear that few politicians from the MDB were willing to support a mass-based party, preferring instead to continue with their brand of elite-led politics. So the union leadership declined Cardoso's invitation to participate in the new umbrella party of the PMDB, and launched their own party, the PT, in October 1979 (Keck 69-70).

Gramsci's concept of hegemony greatly influenced the thinking about social transformation in Brazil at this time. In an article analyzing the impact of Gramsci on the theoretical and political development of the Latin American left, Raul Burgos (2002:14) describes how Gramsci changed the logic about social transformation in Latin America from a Leninist assault on power to one of constructing new centres of power within present society. Burgos (2001:14-15) describes the Leninist theory of revolution as the old logic, taken primarily from the experience of the Russian Revolution, and how Gramsci's concepts of hegemony and historic bloc were used as the basic theoretical instruments for the construction of the new logic. The PT adopted this new logic very early, as evidenced by references to hegemony found in preparatory documents for the party from 1979. Referring to the fundamental interests of workers and other subaltern sectors in constructing democracy, the document declares that democracy "is the space where the possibility of the hegemony of the classes comprising the PT can emerge and offer Brazilian society proposals for its transformation" (in Burgos 2001:21). At this point, hegemony is conceived of as a possibility, and democracy as the institution for the development of this possibility.

From the beginning, Lula argued that unions as institutions should not form the PT. His vision of the party was "a nonsectarian PT, which would include everyone who did not own the means of production, as well as rural and urban small property holders" (Keck 1992:71). The creation of the new hegemony is recorded in its election record. The progress of the PT has been steady (see Tables 4.1 to 4.4).[11] At first, the party grew in Sao Paulo because the core of the national union movement was there, as was Lula. A base for the party had already been formed there through the strikes in 1978 and 1979. After the party was formed, seven members of the Sao Paulo state congress left the PMDB umbrella party and joined the PT in 1980, after they found their leadership aspirations in the new PMDB thwarted. Their defection to the PT provided critical infrastructure and logistical support during the initial period of its legalization (Keck 1992:73).

In the first direct elections for state governors after all the new parties were formed in 1982, the PT did poorly. It fell outside the dominant polarization between the pro-military party and the largest opposition, the PMDB. However, by the 1985 municipal elections, the party demonstrated that it was a strong and growing political force. It had opened up its candidate selection process to the middle classes and in the five cities where the party did best, it had candidates running who had middle-class professions. (Keck 1992:155). In the 1986 Congressional elections, while the PMDB swept the election, the congressional delegations doubled from eight to 16, and Lula was elected to Congress.

At its Fifth Conference in December 1987, the party made the clearest declaration of the party's socialistic aims and outlined its role in constructing a path to achieve those aims:

> In civil society...the bourgeoisie constructed reliable organizations...that not only act to maintain hegemony over the other classes but also to maintain its domination within the state apparatus. Conversely the workers and the middle classes also created organization of civil society that allowed them to participate in the contest for hegemony and political power (PT, 1987:13 in Burgos 2002:22).

At this conference the party concluded that it must continue to take action on three fronts: organization of the party, organization of the popular movement, in particular the workers organized in the Central Unica de los Trabajadores (CUT), and occupation of institutional spaces through election (Burgos 2002:22).

In the 1988 Municipal elections, there was a massive rejection of the status quo, as the PMDB, with its influx of conservative members from the losing pro-military regime party, became perceived to be part of the status quo. The PT won 37 mayoralty races including three state capitals of Sao Paulo, Rio Grande do Sul (Porto Alegre) and Espirito Santo (Vitoria). Just as important, the PT won a number of small municipalities in rural districts where struggles over agrarian reform had been violent. There, the PT worked closely with the landless movement and rural labour organizations and found themselves rewarded with the rural vote (Keck 1992:157).

At its Sixth Conference in June 1989, which had as its primary objective the launching of Lula's candidacy for president, the party concluded that to transcend the global structural crisis, a struggle between the bourgeoisie and proletariat was occurring, and that they were ready:

> the level of political organization of the workers is sufficient for the beginning of a struggle for political hegemony... The workers have constructed an instrument capable of challenging the hegemony of the bourgeois parties on a national level...The PT has constructed an indisputable hegemony within the popular and workers' movement (PT, 1989:5-6 in Burgos 2002:22).

In this passage we see the transition from the possibility of constructing a new hegemony within the institutional setting of democracy, to the PT declaring they were ready to fight for control of the government in the upcoming 1989 presidential election. The party was prepared to:

> "constitute a camp composed of antimonopolist, antilatifundium and anti-imperialist forces within Brazilian society, forming the historic bloc that will serve as a bridge between workers' most profound demands, stemming from

> their existing level of consciousness, and mobilization for the struggle of socialism" (PT 1989:7 Burgos 2002:22-23).

In the 1989 presidential election, 22 candidates ran, and Lula came second with 16 percent of the vote. Fernando Collor de Mello, running as a candidate for a small party (National Reconstruction Party), was a member of one of Alagoa's leading oligarchical families and had "impeccable establishment credentials" (Keck 1992:158). In the election, he ran an image campaign, managing to project himself as both establishment and anti-establishment. With the heavy support of a leading television station, Collor won the second election, but managed to beat Lula by only a slim margin of less then 10 percent of the national vote (Keck 1992:159-160).

In 1991, the first Congress of the PT focused on the question of socialism and trying to achieve it. The party's documents declare that the course of action should lead to the "constitution of a political and social bloc united in a common struggle and in the alliances necessary for the construction of a democratic and popular alternative" (PT, 1991:36 in Burgos 2002:17). In terms of the classes involved in the struggle, the party claimed: "This oppression cannot be summed up as the contradiction between capital and labour but must be seen as extending to discriminatory and exclusionary cultural, political, social, and economic practices expressed in terms of class, race and gender" (PT, 1991:41 in Burgos 2002:17). In terms of winning the presidency and control of government, the party declared: "The conquest of power is a moment of the struggle for socialism, but it does not itself guarantee construction...Its consolidation will depend on the democratic exercise of power as a means of understanding the numerous ideological, political and material contradictions remaining, even among social revolutionaries" (PT, 1991:52 in Burgos 2002:16). In the First Congress, the "potential" for hegemony as possible within the institutional space created by democracy, is now conceived in the dual space of political society and civil society (Gramsci's state):

> The struggle for hegemony presupposes simultaneous action on ideological, political, and social levels. Within the institutions that we participate in, it includes working to expand the limits of participation, of democracy, of citizenship, and the strengthening of society vis-à-vis the state... It means a conflict of ideas, constructing a new culture, a new ethics, and a new social solidarity that opposes the dominant value structure. In summary, the struggle for hegemony today means the construction of the enormous social movement for reform in our country that is necessary for a viable alternative road for development whose principle characteristic is incorporated into full citizenship and work for the millions of Brazilians who are marginalized and disinherited (PT, 1991:46-47 in Burgos 2002:24).

In these resolutions, passed during the 1991 Congress and past conferences, the presence of Gramscian thought is made visible through the party's evolving understanding of 'hegemony,' 'civil society,' 'subaltern classes,' 'political and social bloc,' and 'historical bloc' and the 'state.' As Tables 4.1 – 4.4 indicate, in each election since 1982, the PT dramatically increased the number of mayors and councillors running local governments, worked hard to increase the number of governors and deputies running state legislatures, and steadily increased its number of seats in both houses of the Chamber and the Senate.

While Lula held a dramatic early lead in the presidential election of 1994, he could not overcome the advantages Cardoso had as a result of his successful

Real Plan and his stranglehold over the media. A content analysis of newspapers of the first three weeks in July leading up to October 1994 vote found 66 percent of all reports about Lula were negative, compared with only 20 percent that were negative about Cardoso.[12] Although Lula lost the 1994 presidential election by a significant margin, the PT was successful on other fronts, gaining Governors in two states for the first time, 92 State Deputies, as well as 50 seats in the Chamber of Deputies and five Senators.

In the 1998 presidential race, Cardoso spent a lot of political capital changing the constitution so he could run for a second term, and the economy was again in crisis after the arrival of the Asian economic crisis in 1997. Roger Burbach in the *Nation*[13] reported the Brazilian economy unravelling, with the currency over-valued by 20 percent, a trade and service deficit that had skyrocketed from $1.7 billion in 1994 to $35 billion in 1997, and the cumulative debt that rose from $62 billion in December of 1995 to $300 billion in October 1997. The same international investors that had been pouring money into the country started to flee, begetting high unemployment rates.

Nevertheless, Burbach (*Nation* 1998) reported the economic elites pulling out all the stops to re-elect Cardoso. Even the *Wall Street Journal*[14] reported Cardoso's dependency on political 'boss,' Antonio Carlos Magalhaes. The newspaper quoted Roirdan Roett calling Magalhaes the "political sausage maker behind the technocrats." Magalhaes was not only the 'boss' of the senate, but also leader of the PSDB's coalition partner the PFL, who also owned the media conglomerate *O Globo*, which meant most of the TV and newspaper coverage supported Cardoso. Burbach (*Nation* 1998) reported that while Cardoso had "the power of the state apparatus, the media and a campaign war chest fortified by Brazil's corporate and financial interests on his side," the Lula campaign was " asking every worker to contribute one real (almost $1)." And so again Lula lost. The party, however, increased its number of Governors to three, lost two State Deputies but gained ten seats in the Chamber of Deputies for a total of 60, and raised its number of Senators to eight.

In the run up to the 2002 election, Lula developed a strategy with PT president Jose Dirceu, to run an all-inclusive presidential campaign to try to win over the business community. It was a strategy that was endorsed by the leadership, over considerable objection from the far left wing of the party (Branford and Kucinski 2003:3). A flagship of this new alliance was the selection of Senator Jose Alancar from the small, right wing Liberal Party, a party closely linked with the socially conservative evangelical Universal Church of the Kingdom of God. As a businessman, Alancar is the owner of Brazil's largest textile factory, Coteminas, and the owner of a large personal fortune of over US$500 million. According to Branford and Kucinski (2003:4) he is progressive to the extent that he pays his workers a decent wage (by Brazilian standards) and allows them to form independent unions, and is a nationalist.

In response to what the PT called "financial terrorism" by the international financial markets to influence the outcome of the election, Lula issued a "Letter to the Brazilian People," where he promised to change the country's economic policies, but at the same time respect existing contracts, such as the one with the

IMF, promising he would not default on the country's debt (Branford and Kucinski 2003:7). At the same time, he tapped into the anti-globalization sentiment, promising to defend Brazilian jobs and businesses from foreign competition, institute a more active industrial plan in order to create economic growth, increase exports, and increase jobs – making it very difficult for his opponent, Jose Serra (Cardoso's successor leading the PSDB), to attack him.[15]

Not only did Lula win the presidential election, the number of State Deputies increased from 90 to 140, the number of seats in the Chamber of Deputies increased from 60 to 91, and the number of senators increased from eight to 14. The PT had managed to claim the electoral territory from the radical left all the way to centre-right. Once Lula had won the first election with nearly a majority, and was the overall favourite to win the second ballot, former allies and coalition partners of the Cardoso government moved to support him.[16] According to Elizabeth Dore (2003:23), "broad sectors of the middle class and parts of the upper class joined the working classes in rejecting the neoliberal model of the last decade" – a reflection of the new hegemony created by Lula and the PT.

Brazilian business elites and their acceptance of the new hegemony

In his survey of business elites and their opinions and attitudes towards labour relations, business associations, presidential administrations and political issues, Leigh Payne (1995) interviewed 155 industrial leaders from both Brazilian and international firms between 1986 and 1988. His analysis provides valuable insight into business preferences and perceptions regarding government policy.

Payne (1995:218) reminds us that Brazil's business leaders played a critical role in destabilizing the democratic government of Joao Goulart (1961-1964). He was therefore interested in how domestic elites behave as a class, the issues of most concern to them and how they would respond to these issues during Brazil's transition to democracy. According to Payne (1995:219), his survey identified three key issues for the industrial elites: the economic crisis of the 1980s, changes in the capital-labour relations, and expropriation of private property. Although Brazil's business leaders faced extreme economic uncertainty during the Sarney government (1985-1989), where they witnessed four finance ministers attempt five stabilization efforts,[17] they did not attempt to destabilize Sarney's government for two reasons. First, they retained the view that they had some influence on the political process, and second they were allowed to circumvent the economic crisis through such means as capital flight, speculation, and black market pricing through the avoidance of price controls (Payne1995:220-223).

In terms of their view of labour, Payne's (1995:231) survey revealed that while 77 percent of the industrial leaders survey perceived the PT and CUT (Central Unica dos Trabalhadores, the main trade union) as being on the extreme left, 64 percent did not feel threatened by their relationship with labour, and were satisfied with their labour relations. So there was no consensus in the late 1980s that labour was a threat. With the demise of the international left, industrialists suggested that the "symbols of the 1960s (such as the Cuban Revolution, Fidel Castro, and Che Guevara) had been replaced by perestroika, glasnost, and Lech

Walesa" (Payne 1995:232). Those surveyed also indicated that they were satisfied with their level of control of the Constituent Assembly, the institutional body developing the 1988 Constitution for the New Republic. The fact that they were able to defeat labour's demands for job security, and retain the right to hire and fire workers at will, particularly those who led strikes or otherwise participated in activities that threatened their firm, was an important victory (Payne 1995:229).

During the second half of the 1980s, business elites perceived the main threat to be agrarian reform. Payne (1995:233-234), however, found industrialists ambivalent towards it. On the one hand they thought that it might help resolve the rural migration problem and low agricultural production, on the other hand they feared legislation permitting the expropriation of private land could lead to the expropriation of industrial firms. Rural business leaders were, of course, unanimously opposed to agrarian reform and took direct action to defeat it. This group actively organized (forming the Uniao Democratica Ruralista, UDR), sponsored violence against rural agrarian organizers and were generally satisfied with the government's weak response to their actions and their ability to prevent legislation that was not in their interest.

Payne's (1995:240-245) research confirmed some basic truisms about Brazil's business elites, which are relevant to understanding how these business leaders behave. His analysis revealed that when business leaders perceived a universal threat, they were very capable of affecting outcomes, such as the exclusion of job security from the 1988 Constitution, or meaningful agrarian reform. However, despite their privileged position and access to extensive political, social and economic resources, Payne found that the key obstacle facing business leaders in Brazil was their diversity. All firms vary in size, location, needs. Policies do not affect all businesses in the same ways, and their diversity of backgrounds, experience and ideology leads them to diverse interests and opinions, and therefore they often disagree on the impact of policy measures. This diversity often weakens their ability to act as a class. For example, Payne (1995:244) found their political attitudes towards democracy fell into three broad categories: "a minority strongly defended democratic rules and procedures, another small group strongly favoured authoritarian rule, and the majority was "indifferent to political systems."

Combined with this diversity, Payne (1995:243) also identified weak leadership. While business leaders have their associations, such as FIESP (Federacao das Industrias do Estado de Sao Paulo) and CNI (Confederacao National da Industria), the efforts of these associations are targeted at defending broad interests and bringing tangible benefits to individual companies. Therefore, their leadership faces widespread criticism from many different perspectives. Also, while they may unite in criticizing a specific policy, Payne (1995:242) argues his research indicates business leaders are not good at providing alternatives, relying on politicians and their association leadership to do it for them. As long as business leaders perceive that politicians are receptive and responsive, then as a group they are generally compliant, unable to respond unless a specific, universal threat is perceived.

In his examination of why industrialists in Brazil accepted Cardoso's Washington Consensus development model, Peter Kingstone (2001) adds other factors that support Payne's analysis. At first glance, it is difficult to understand why domestic capital in Brazil would ever have supported a development model that so overtly empowers international capital at the expense of domestic capital. Kingstone identifies four factors in the 1990s: the continuing economic crisis; the hegemonic support of the international business community for neoliberal economic adjustment; economic policy bundling, where policies that disadvantage domestic elites are bundled with others to mitigate losses; and the absence of any distinct class of losers.

Kingstone (2001:1001-1004) argues that economic crisis constitutes weaker social resistance, and so affects actors' preferences. It makes the status quo appear ineffective and obsolete, consequently opening up the possibility for change. Failure of the military regime in the 1980s to control the balance of payments, growing debt and inflation supported a political change from the military dictatorship to democracy. In terms of choosing a development model, debate among Brazil's traditional elites (politicians, domestic capital and international capital) was focused on international support for the neoliberal model offered by the Washington Consensus and the British model of the Third Way (cf. Anthony Giddens 1998, and footnote #6 of this chapter).

In relation to packaging and presenting economic reform, the Collor (1990-1992) government promised to address the "fiscal crisis of the state," by bundling policies supported by business elites, such as an inflation plan, reductions in public spending, privatization incentives (debt/equity swaps) and export financing programs along with other policies they did not support, such as freezing savings accounts, cracking down on capital flight and speculation (see also Payne 1995:246-248). Cardoso followed suit with his successful stabilization program, introducing lines of credit at subsidized interest rates, along with trade liberalization measures, which sufficiently distributed the benefits and mitigated the costs of neoliberal reforms for many local producers. Therefore, Kingstone (2001:1006) concludes, that the preferences of Brazil's domestic capitalist class were shaped by economic crisis, promises of improved profits through neoliberal reform and the efforts of politicians to build and maintain coalitions of domestic elites in favour of reform by bundling policies to mitigate the costs for those that could survive the transition.

Kingstone (2001:996-997) also suggests that arguments about the politics of free trade often envision struggles between 'winners' and 'losers,' commonly stylized to portray domestic producers as nationalist, anti-reform losers in the reform process, while TNCs are portrayed as the winners. Meanwhile, his examination of the top 100 firms and 20 largest producers by sales from 1990 to 1997 revealed similar results found by Siffert Filho (1998), which I discussed in chapter 3 of my thesis.[18] Kingstone (2001:997), however, interprets the data to suggest that this period undoubtedly "produced real loses, but not in any way that yielded a distinct class of losers versus winners." Kingstone (2002:998) admits that trade liberalization led to an increase in the number of losers and new entrants. But what he found surprising was that the emergence of new firms did not appear to provoke clear lines of conflict, especially between TNCs and domestic capital. Kingstone (2001:1000) concludes that sharp conflict did not emerge because the losers appeared "so diffuse as a class," and that enough of the economic actors in 1991(50 percent, or 10 of the top 20) remained in the top 20 in 1997. His interpretation, however, is undermined by the fact that a year after his analysis was published, Lula was elected with the support of a significant number of Kingstone's 'losers' when they abandoned the Washington Consensus development model and Cardoso's party to vote for Lula and the PT.

I would therefore argue that the same factors Kingstone identified that led Brazil's domestic elites to support the Washington Consensus development paradigm, if looked at from a competing perspective, contributed to the abandonment of Cardoso's development model by some members of Brazil's business elite: the dire economic crisis faced as a result of the debt crisis of the late 1990s, the international fall from grace of the Washington Consensus and the rise of an anti-globalization movement to international legitimacy, the possibility of bundling nationalist economic policies with other desirable social policies, and the absence of any distinct class of domestic winners, other than the subsidiaries of TNCs, whose absentee owners were not voting in the election.

Maricio Font's (2003) analysis of why domestic business elites began to reject Cardoso's development model confirms much of both Payne and Kingstone's analysis. Font (2003:119), an admirer of Cardoso, characterized in a rather ironic tone, the industrialists at FIESP as being frustrated with their organization, thinking that it had "not evolved with the times into a more modern lobbying and service-providing stance – in spite of its 17,000 functionaries, 450 employees, 140 directors and a yearly budget of more than R$698 million." Font (2003:119) continued by suggesting that the industrialists were frustrated by a number of diverse factors, including their perceived lack of influence on the government, the pluralization of the state, the fragmentation of the party system, but most of all they feared that the primacy of their industrial sector was being threatened. Font (2003:122) reports that the industrialists complained bitterly about the absence of a well-articulated industrial policy explicitly centred on national industry and that they were opposed to the focus on stabilization and liberalization rather than on their own growth, and that they also complained about high interests rates, and the taxation system. In other words, Font's analysis support's Payne's, by suggesting the diffuse interests of the business elites indicated a general malaise in this sector, but no one universal threat that would cause them to rally, to defend their interests as a class.

A CNI business confidence index measuring the manufacturing industry's confidence in business growth supports this diagnosis. It indicates that even during the run-up to the election of Lula (July to October 2002), business confidence did not fall below 48.5 on the index, where a measure of 50 reflects confidence (see table 4.5). So while nervous, the index indicates that Lula and the PT were not universally regarded as a threat, and therefore the losers in Cardoso's development model felt safe enough to abandon their traditional alliances. A quote from the *Wall Street Journal*[19] illustrates the perception of some domestic business elites:

> In Brazil's past three presidential elections, Sergio Haberfeld, owner of a large packing company, always voted one way: against former union boss Luiz Inacio Lula da Silva. But on Sunday, he will cast his ballot for the leader of the left-wing Workers Party. After eight years of market reforms that have failed to spur economic growth and narrow the gap between rich and poor Brazilians…Mr. Haberfeld is among a growing number of businesspeople who are abandoning the party of outgoing President Fernando Henrique Cardoso, making this the first election since the end of the military rule in the 1980s that Brazilian businesspeople are divided….Eugenio Staub, president of consumer-electronics maker Gradiente, is voting for Mr. da Silva…Lula "can bring together businessmen, workers and the middle class," says Mr. Staub.

In January 2003, the month Lula took office, business confidence was back up to 58.9 on the index, measuring a bubbly 62.4 by January 2004.

In summary, the domestic business elite's lack of class hegemony, and its lack of ability to organize and act around general interests is the result of several factors: their diversity of interest; lack of leadership; lack of any single overriding threat; lack of a clear class of losers, or more specifically, the rise of a clear class of winners in the form of new foreign corporate owners; the inability of a development model, dependent on foreign capital, to keep economic crisis at bay; and the loss of legitimacy of the international right (the Washington Consensus under a new president, George W. Bush) comparable to the loss of the international Left's legitimacy after the fall of the Berlin Wall in the 1980s. These factors explain why some members of Brazil's business elites abandoned the Washington Consensus development model, leaving political, economic and social space for Lula's new hegemony to take root within the capitalist classes.

Conclusion

My research indicates that Cardoso found a development model in the Washington Consensus development paradigm that reproduced the characteristics of dependency he diagnosed in the 1960s. It also supported the tradition of elite-led politics to which he had become accustomed. The social democratic party he helped to establish and lead was formed by parliamentary elites without a base of support from labour unions, a traditional constituency for such a party. International legitimacy bestowed by the Washington Consensus and the Third Way, reinforced Cardoso's own originally held beliefs that dependency and development were not contradictory terms as long as development was narrowly conceived as the progress of productive forces. Combined with the social democratic practice of using social policy to mitigate the worst injustices of the capitalist mode of production, he believed his model of development could be implemented, even without the hegemonic support of a broad coalition of social forces within Brazil.

At the same time, Lula and the PT, embracing Gramsci's notion of hegemony, began constructing a new hegemony capable of instituting social transformation. From the beginning, Lula's view of a nonsectarian party, capable of including a broad cross section of class forces beyond just the labour movement guided the building of the party. Opening up its candidate selection process early in its development to included members of the professional middle classes, and then expanding to support the landless movement and labour unions in rural Brazil, rewarded the party in each successive election, building a stronger and stronger team of experienced politicians and skilled political operatives at the local and state level. By the 2002 election, Lula and the PT were ready to run an all-inclusive campaign that would include members of Brazil's capitalist classes.

Since the transition to democracy in 1985, Brazil's domestic elites have always been involved with political elites in ensuring their universal needs were met, whether that be in limiting the power of the unions by excluding job security from the 1988 Constitution or by preventing meaningful land reform. However, despite their privileged position and access to political, social and economic resources, the domestic elites as a class faced several obstacles.

Their diversity of interests, lack of leadership and the loss of legitimacy of the international right, combined with a number of losers in the neoliberal development project, and the only clear winners being foreign capitalist interests. These factors, combined with Lula's efforts to run his inclusive campaign, actively seeking the support of Brazil's capitalist classes, influenced members of Brazil's business elites to abandon Cardoso's Washington Consensus development model in favour of Lula's new hegemonic project.

Table 4.1: Municipal Elections – PT results

Source: Branford and Kucinski (2003: 55).

Year	% votes for PT in Chamber of Deputies	% of PT seats: in the Chamber	Number of PT seats	Number of PT senators
1982	3.5	1.7	8	0
1986	6.9	3.3	16	0
1990	10.2	7.0	37	1
1994	12.8	9.6	50	5
1998	13.2	11.3	60	8
2002	16.5	17.7	91	14

Table 4.2: State Elections – PT results

Year	Number of Governors	Number of State Deputies
1982	0	12
1986	0	40
1990	0	81
1994	2	92
1998	3	90
2002	3	147

Source: Branford and Kucinski (2003: 55).

Table 4.3: Congressional Elections – PT results

Year	Number of Mayors	Number of Councillors
1982	2	127
1988	37	1,006
1992	54	1,100
1996	115	1,895
2002	174	2,475

Source: Branford and Kucinski (2003: 43).

Table 4.4: Lula's Record in the Presidential Election

Year	Round 1: % of vote	Round 2: % of Vote
1989	16.0	44.2
1994	22.0	-
1998	26.1	-
2002	46.4	61.3

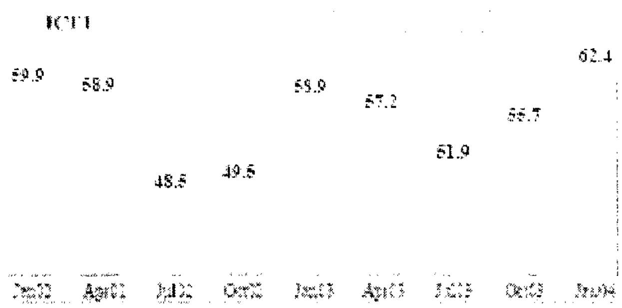
Source: Branford and Kucinski (2003: 43).

Table 4.5: CNI Business Confidence Index

CNI Business Confidence Index - ICEI

	Jan02	Apr02	Jul02	Oct02	Jan03	Apr03	Jul03	Oct03	Jan04
ICEI	59.9	58.9	48.5	49.5	58.9	57.2	51.9	55.7	62.4
Large Companies	61.9	61.4	49.9	51.5	61.4	61.6	55.3	59.1	65.0
Small and Medium Companies	58.7	57.6	47.8	48.5	57.6	54.7	50.1	53.9	61.0

The index ranges from 0 to 100. A reading of more than 50 reflects confidence



Percentage Change

ICEI

Jan04 Oct03	12.0
Jan04 Jan03	5.9

Large Companies

Jan04 Oct03	10.0
Jan04 Jan03	5.9

Small and Medium Companies

Jan04 Oct03	13.2
Jan04 Jan03	5.9

Source: www.cni.org.br/english/f-ps-indice.htm Accessed: 25 May 2004.

Notes

[1] Cardoso wrote this article in 1983, and it was included in Stepan's book for publication in 1989.

[2] This information on the history of PSDB is from Power (2001:617-621); Font (2001:14-15); Font 2003 (1-20).

[3] In 1979, the military abolished the two-party system it had artificially created in 1966. ARENA (Alianca de Renovacao Nacional), the pro- government (military) party, and the MDB (Movimento Democratico Brazileiro), the anti-government party, were replaced by six new parties, including the PMDB (Partido do Movimento Democratico Brazileiro) and the Partido dos Trabalhadores (PT). The PMDB was the largest opposition party, an umbrella catch-all party containing a wide variety of groups from across the political spectrum, unified by their opposition to authoritarian rule. (Keck 1992:26).

[4] In a parliamentary system, the executive (government) controls the agenda, and the legislature (parliament) accepts or rejects proposals, as opposed to a presidential system, where the legislature makes the proposal and the executive (the president) signs or vetos them. Parliamentarism is a regime in which the government, in order to retain power, must enjoy the confidence of the legislature. Because decisions are made by majority rule, no parliamentary government can exist without majority support. This definition is from J. Cheibub and F. Limongi, 2002. Democratic institutions and regime survival: parliamentary and presidential democracy reconsidered. *Annual review of Political Science,* 5,151-179. (Cheibub and Limongi, 2002:153,169).

[5] The boundaries of what is left and what is right in Brazil are quite elastic. Here I describe those on the left as progressive, supportive of redistributive social policies and those on the right as conservative and protective of private property rights and income.

[6] This definition of clientelism comes from R. Gay, 1990. Community organization and clientelistic politics in contemporary Brazil: a case study from suburban Rio de Janeiro. *International Journal of Urban and Regional Research,* 14 (4), 648-665 (Gay 1990:648).

[7] This information on the ideological transformation of the PSDB is from Power (2001:621-626).

[8] The Third Way is a term Anthony Giddens coined in 1998 (see A. Giddens, *The third way: the renewal of social democracy.* Cambridge: Polity Press). Power (2001:615-616) describes the the Third Way as a shorthand for modernization of social democracy based on a defined set of values (egalitarianism, emancipation, citizenship, community, solidarity, democracy), rather than a specific set of social and economic policies. This allowed social democratic

parties to keep their values and leave behind their statist policies (such as nationalized industries and the welfare state) while moving towards market-based policies in the 1990s.

[9] Information in this section is from Keck (1992); Branford and Kucinski (2003); Baiocchi (2003).

[10] According to Keck, as the pro-military Party (ARENA) began losing elections to its opposition party (MDB), the military regime decided to open the system to new party formation in the hopes of fracturing the opposition, thereby allowing it to continue to rule (Keck 1992: 33-34).

[11] The Brazilian electoral system, based on the constitution of 1988, relies on state-level majorities to elect the president, governors, mayors and senators. There is a system of proportional representation used to elect representatives to the federal Chamber of Deputies and the Senate as well as state and municipal legislatures. There are two rounds of voting for the election of the president, in order to ensure the winner governs with a majority.

[12] Information on elections for 1994 elections campaigns from: Marks, S. 1994. A Lula Government for Brazil? *North-South: The Magazine of the Americas.* Sep/Oct 4 (2): 8-14; Moffett, M. 1994. Brazil's anti-inflation program shifts momentum in presidential campaign. *The Wall Street Journal (Eastern Edition)*, July 28:A8.

[13] Burback, R. 1998. Attacking Neoliberals in Brazil. *Nation,* October 12, 267(11):19-21.

[14] Fritsch, P. 1998. Brazil's Cardoso Appears on Track to Victory---Cardoso's Push for Reform Hinges on powerful 'Boss.' *The Wall Street Journal,* (Eastern Edition), October 5:A21.

[15] Varoga, C. and Fornes, A. 2003. Lula's landslide: how a three-time loser won Brazil's presidency. *Campaigns and Elections,* May:28-31.

[16] Ibid.

[17] Cruzado Plan I and II in 1986, Bresser Plan in 1987, Social Pact in 1988 and the Summer Plan in 1989 (Payne 1995:221).

[18] Kingstone (2001:998-999) observed that 65 of the top 100 groups were still in the top 300 after 14 years (1983-1997), with 50 of them still in the top 100, and that between 1991 and 1997 an average of 50 percent of the top 20 producers in each of the eight sectors he examined had dropped off the top 20 by 1997.

[19] Karp, J. 2002. Some Brazil businesses warm to leftist candidate. *The Wall Street Journal* (Eastern Edition). October 2:A14.

Conclusions

I began my thesis by asking why Cardoso would implement a development model that he had characterized as imperialist twenty years before, and why prominent members of the Brazilian capitalist classes would abandon the governing party of Fernando Henrique Cardoso to ally themselves with Lula, the PT and Brazil's subaltern classes. My research indicates that Cardoso never attempted to construct a new hegemony. His political choices indicate his willingness to reproduce an elite-led form of government that ruled by presidential decree rather than by consensus. Despite his academic understanding of Marx and Gramsci, as a political leader he proved incapable or unwilling to join the PT to create a new mass-based political party. Instead, Cardoso chose to create his own party of political and intellectual elites. The PSDB, while originally following the tenets of social democracy, proved all too willing to make shallow alliances with other domestic elites, such as the members of the PFL, despite this party's historical ties to authoritarian rule and a questionable commitment to the democratic rule of law. Cardoso's elite-led form of political party by definition excluded the subaltern class, and it was a structural problem that he was never able to overcome.

Cardoso also remained committed to a form of dependent development he diagnosed as an academic in the 1960s and 1970s and dressed up as a new development model under the mantels of the Third Way and the Washington Consensus. This model, with its focus on international capital, continued to diminish the role of Brazil's capitalist classes, limiting them to internalizing external interests. Cardoso continued to characterize the national bourgeoisie as weak and incapable of a hegemonic project, but offered no alternative to it. Instead, he governed by trying to manage the interests of the capitalist classes within the state, while presenting himself as a social democrat attempting, within the confines of a government patrolled by an orthodox economic team and members of the PFL, to mitigate the negative distributional consequences of capitalist development. Together, his party and his development model combined to obstruct his ability to create hegemony. His shallow base of support left him politically beholden to members of Brazil's PFL, and his brief success with the Real Plan left him reliant on technocrats, who were confident in their ability to manage the economy, but remained aloof from the social and economic reality of most Brazilians.

Conversely, Lula and the PT recognized the need to build an inclusive, consensual model of government, which they constructed and practiced at the local and state level. Whether it can be translated into a sustainable model of governance at the national level remains to be seen. Hegemony and historic blocs are as much moments in the social relations of production as are the state and models of development. It will be the dialectical relationship between these four elements that will determine if Lula and the PT will be able to construct new paths towards socialism.

As president, Cardoso did not attempt to change the essential characteristics of Brazil's situation of dependency. Instead he chose a model of development that reproduced it. Through privatization and lack of control over acquisitions of domestically owned industry by foreign capital, Cardoso handed over not just poorly performing industrial assets, but control of the most dynamic sectors of Brazil's industrial structure to TNCs. Most blatantly under his leadership, Brazil saw the demise of any control over its technology and capital goods sector (Cardoso's production of the means of production), as TNCs gained control of 86.9 percent of this sector's market share, reducing domestic capital's involvement to just 13.1 percent by 1999.

With their power to control the national industrial sector badly eroded, those domestic elites disenfranchised by the Washington Consensus development model exercised their democratic right to act as individuals, and voted for an alternative, fracturing the vote of the Brazilian capitalist class.

By the end of the 1990s, Cardoso's commitment to the Washington Consensus development paradigm created an economic crisis similar in kind and in magnitude to the one in the 1980s that led to the end of the military regime's capacity to rule. Cardoso's monetary policies kept interest rates high to attract foreign investment, and an overvalued currency kept inflation at bay. He combined these policies with an industrial strategy that liberalized trade and denationalized the industrial sector, which together have left Brazil on the verge of bankruptcy.

Although Cardoso was the leader of a democratically elected government, and although he adopted a model of development that had hegemonic support of the largest advanced capitalist countries in the world, he failed to change in any significant way the character of Brazil's situation of dependent development, or the nature of the state that supported it. Cardoso simply reproduced the domination of the capitalist classes that existed under his model of dependent development, favouring international capital at the expense of domestic capital, under the conditions of a democratic regime instead of a military one.

My analysis of the historical dimensions of foreign corporate ownership and the socio-political limits of foreign capitalist expansion in Brazil, demonstrate that Cardoso's neoliberal model of dependent development found its socio-political limit through an expression of class struggle, through a crisis of hegemony. This struggle saw disenfranchised members of Brazil's capitalist class abandon the Washington Consensus and Cardoso's model of dependent development to join Lula, the PT, and the subaltern classes in an effort to redirect Brazil's social and economic development.

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