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Extending Varieties of Capitalism to emerging economies: what can we learn from Brazil?

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Abstract

In this paper we argue that efforts to apply Varieties of Capitalism to emerging economies can retaining a central role for institutions as constraining, it is important to incorporate into the analysis the nature and role of social blocs and the development of growth regimes. The paper develops a framework that systematically explores the links and interactions between institutions, the politics of social blocs and the viability of growth regimes as a way of understanding the trajectory of varieties of capitalism. We illustrate the value of this framework by applying it to developments in Brazil over the last three decades. In our concluding section, we describe how the application of the framework can be broadened not just to other emerging economies but also to the challenges currently being faced by advanced capitalist democracies. We identify a series of research questions developing and applying insights from this framework. A theoretically renewed comparative capitalisms approach to emerging economies is therefore potentially going to provide a payoff to developing a global perspective on forms of capitalism and their trajectories.

Keywords: Varieties of Capitalism, social blocs, growth regimes, institutional change, Brazil

Introduction

The field of varieties of capitalism (VoC) is becoming increasingly diverse as authors consider a range of societies different from the leading OECD countries. Most recently researchers have sought to incorporate emerging economies in Latin America, Asia and Africa into VoC typologies (e.g. Fainshmidt et al. 2018, Nölke et al 2020; Schneider 2013; Witt et al., 2018). Alongside this have been efforts to renew theoretically the VoC approach by drawing on French Regulation theory (Aglietta 2000; Boyer 1990; Boyer and Saillard 2001), to better understand processes of change. This renewal has primarily focused on exploring the relationship between institutions, politics, distributional conflicts and growth regimes in developed economies (e.g. Amable 2016; 2017; Amable et al. 2019; Baccaro and Howell 2017; Baccaro and Pontusson 2016; Iversen and Soskice 2019). In this paper, we ask how these theoretical developments can be integrated in such a way that allows us to understand better the dynamics of emerging economies. We develop a framework that systematically links the interactions between institutions, politics and growth regimes. Such a framework gives due weight to institutional embeddedness whilst also recognizing that the sphere of politics and the dominant social bloc (DSB) has the capability of introducing institutional change particularly as growth regimes which are central to economic outcomes and their distributional effects, evolve, change and enter periods of crisis. We illustrate the value of this framework by applying it to developments in Brazil over the last three decades where the particular structure and embeddedness of institutions has constrained the emergence of a long term stable dominant social bloc that could develop a growth regime beyond one dependent on commodity exports. Lula's efforts to do this reveal the need for the sort of multi-levelled analysis which we propose. In the concluding section, we propose that our study of Brazil has ramifications for other emerging economies where the

tensions between underlying institutions, dominant social blocs, and growth regimes that can sustain balanced growth of production and consumption, is difficult but not impossible to overcome (as East Asian economies reveal). We argue that this is of relevance in advanced capitalist democracies, where a long period of sustained neoliberal dominance is being challenged by the impact of austerity, and the consequent rise of populism and economic nationalism. We argue that by carefully distinguishing institutional structures, their influence on the formation of dominant social blocs and the construction of growth regimes that offer sustainable material and ideological support for the key social actors in the bloc, it becomes possible to understand processes of breakdown and crisis in particular regimes of accumulation in advanced capitalist democracies as well as emerging economies.

Moving forward with the comparative capitalisms approach

Developing from the Regulation approach, we identify and expand on three key levels of analysis that interact to produce various degrees of stability and change within particular national contexts. Firstly, we draw on the importance of institutions, the complementarities and sunk costs deriving from institutions and therefore the inertial forces which are embedded in these structures and empower and benefit certain groups at the expense of others. Secondly, we emphasize that actors seek to build stable social blocs which dominate and manage institutional maintenance and adaptation in response to changing endogenous and exogenous contexts.

Drawing on Amable (2016), we argue that a dominant social bloc consists of a variety of actors, usually under the leadership of one particularly central group such as business or labour, who share an interest in maintaining or developing a particular institutional configuration. However, there are differences of degree in actors' commitment to any particular configuration. Therefore for the social bloc to function effectively it must allow for continuous rebalancing and

renegotiation of the material and ideological benefits of being in the bloc. Thirdly, sustaining the social bloc and the institutions which underpin it necessitates a growth regime which matches home based production with domestic or foreign consumption markets in order to sustain the particular structure of output and the distribution of its material benefits to members of the social bloc and those outside. In the rest of this section, we open up these arguments further.

The early formulations of the VoC approach focused on the efficiency effects of institutions (Hall and Soskice 2001) and the idea of complementarities between different institutions that provided benefits to social actors which followed the rules of the game. Actors became invested in the rules, creating fixed assets that were hard to change or switch into new directions.

Institutions delivered differential benefits to social actors either directly through the ownership system in the case of capital or through the employment system and the welfare regime in the case of workers or potential workers. Institutions also shape how social actors perceive their potential for solidarity and shared interests in and across different groups' interests and identities (Jackson 2010). Institutions are temporary settlements of varying durations which embed particular forms and levels of inequality between occupational groups, genders, ethnic groups and across different forms of employment contract (part-time versus full time, temporary versus permanent, self-employed and employed). They also influence who has power in such a context and particularly how the power of business and capital is embedded in the structure of the economy (Culpepper 2010; 2015). Institutions have to be sustained and adapted as external and internal circumstances change and this occurs within the political sphere where, under democratic systems, alliances between groups are necessary for electoral success. Big business requires allies from small and medium sized businesses, professional groups, and some sections

of the salaried middle class (see also Schedelik et al. in this volume). Pro-business parties also seek to reach out to sections of the working class and even in some circumstances the unemployed and landless. Similarly, pro-labour parties seek out allies amongst groups that have different economic positions. The struggle to become the dominant social bloc (DSB) with predominant control over how institutions are adapted and changed occurs within the electoral and constitutional framework of particular societies. Sustaining core support whilst drawing allies in depends on satisfying material interests and developing ideological frameworks that can unify disparate groups. A dominant social bloc is generally held together by three mechanisms: (1) A willingness of the core beneficiaries of the institutional configuration to share some of those material benefits with allies, in order to bind them into electoral support (2) a common ideological framework articulated by political parties and leaders that justifies and legitimates the existing institutional configuration and distributional settlement as just and moral on the basis of prosperity for the majority, not just the few and (3) by the ability of leaders of parties and groups to negotiate compromises over potential economic and political divides between social actors within whatever structure of political representation exists (e.g. proportional versus majoritarian electoral systems).

Dominant social blocs are subject to breakdown particularly under conditions of crisis. Amable makes clear that such crises are not necessarily resolved and can lead to prolonged periods of instability and uncertainty as different groups seek to forge a new social bloc or reestablish the old one:

A political crisis is a situation where there is no room within a given institutional structure for a political mediation between the social groups belonging to the dominant bloc. The

existing institutions may prevent not only the renewing of the former DSB but also the emergence of any new dominant bloc. In a systemic crisis, political actors cannot find any institutional change strategy that can aggregate a possible DSB. (Amable 2017: 5).

The final level of our analysis focuses more explicitly on the idea of the ‘growth regime’ defined by Baccaro and Pontusson (2016: 176) as emphasizing the ‘demand side of the economy and plac(ing) the distribution of income, among households and between labor and capital, at the center. Our analytical framework identifies multiple growth models based on the relative importance of different components of aggregate demand – in the first instance, household consumption and exports – and relations among components of aggregate demand’. The growth regime approach with its focus on distribution emphasizes how particular patterns of production of goods and services are also associated with different levels and forms of inequality.

Commodity production for export, for example, tends to distribute benefits highly unequally with most revenues returning to large landowners and big agricultural and mining corporations rather than the relatively small and unskilled labour force involved in extraction. It may also involve dispossession of indigenous peoples to exploit land and resources more effectively, creating a large pool of landless labourers living in poverty available for low wage employment. Export of high value added goods and services tends to favour high returns to skilled labour, whilst dependence on medium level technology manufacturing exports often leads to wage suppression in order to be competitive overseas (see the discussions in Baccaro and Pontusson 2016).

Shifting between growth regimes requires institutional change e.g. in the case of moving to high value added exports it necessitates high levels of investment in education, infrastructure and research and development, often associated with higher taxes. Those made wealthy by a different growth regime, e.g. one based on commodity production and a low skilled and highly controlled

workforce can be expected to resist such a shift even if external changes mean that the growth regime is in decline, e.g. during periods of falling commodity demand. Creating a growth regime that builds on institutional advantages and provides the dominant social bloc with the ability to distribute benefits to its members and maintain its ideological hegemony is therefore highly complex where internal and external conditions are volatile and institutional settlements embed a particular range of constraints and power relations (see Figure 1 for a schematic representation of the forces at work and the relationships between the key concepts).

FIGURE 1 ABOUT HERE

Brazil: reforming social institutions, developing new social blocs and reviving a growth regime

Brazil is a highly useful case for examining these interactions. On the one hand, it has a distinctive and deeply engrained institutional structure that reflects and embeds a social structure of power and class that has dominated Brazilian history for centuries. On the other hand, through the 20th and 21st centuries, there have been a variety of dominant social blocs (in terms of different combinations of key social actors) which have sought to control state power through democracy and dictatorship in order to manage mechanisms of economic distribution using various ideological frameworks (Bresser-Pereira 2015). In spite of Brazil's resources, none of these social blocs has been able to create a long-lasting growth regime. Instead, after initial success, the blocs collapsed, the efforts to shift the growth regime have been short lived and institutions barely reformed, leaving inequality still exceptionally high. We concentrate on the era from Lula da Silva's first election victory in 2002 to Bolsonaro's election in 2018.

Institutions in Brazil and VoC

For Latin America and Brazil in particular, Schneider's institutional analysis of what he describes as Hierarchical Market Economy (HME, 2009, 2013) notes in particular atomistic labour relations and low levels of skills and education. Labour representation in trade unions has been limited and though there are pockets of high wage manufacturing employment together with some generous pension deals for state workers, there is considerable under-employment and poverty. Authority relations within firms are hierarchical with limited delegation to workforce level, reflecting low levels of skill as well as big social divides between top managers and the workforce as a whole. Large Brazilian firms have been generally characterized by family ownership and diversified business interests across a wide range of sectors. Typically, they have prospered in sectors which can be protected from competition due to their oligopolistic or monopolistic structures or by state regulation or protection. The state has particularly enforced the highly unequal rights of private property in land stemming from the colonial era with implications for the exploitation of natural resources such as minerals, timber and pasture as well as broader trends in inequality. This has also involved ignoring and rejecting, if necessary by violent means, alternative claims over land and its usage emerging from indigenous peoples (Carvalho 2000; Silva 2018) and small scale farmers. Close relations between key actors in the state and the Brazilian business elite have reinforced this pattern. US multinational companies entered Brazil from the 1930s and have dominated key manufacturing sectors, such as the automotive sector, whilst generally isolating themselves from other Brazilian firms and institutions with limited upgrading of local value chains or innovation systems (Schneider 2015).

These analyses point to an institutional structure dominated by a low-skill equilibrium in which firms do not invest in high-skill, high-quality production. The Federal state has generally been weak in developing institutions such as schools, training centres and universities which could contribute to workforce upgrading, and business has not been particularly interested in these developments (Schneider 2013). At the same time, workers do not have enough incentives to invest in their own skill upgrading due to a lack of high-wage and protected jobs (Schneider 2009, 2013, Schneider and Karcher 2010). Short employment tenure is facilitated by a large pool of informal workers (Schneider and Karcher 2010). Informal workers, especially in micro-enterprises, do not have incentives to improve skills. The availability of informal work can act against attempts to increase schooling (Amann and Barrientos 2016). The low-skill equilibrium therefore reduces the potential for social development and undermines attempts to address inequality and poverty by creating a well paid labour force (Ebenau 2012). Brazil has found itself in the middle income trap, i.e. unable to compete with low income, low wage economies in manufactured exports and unable to compete with advanced economies in high-skill innovations (Doner and Schneider 2016: 609 leading to a cycle of inequality, low growth, uneven access to institutions of skill acquisition and weak corporate governance (Schneider 2013, Feldmann 2019).

From Institutions to Social Blocs

As with most accounts of VoC which focus on institutions per se, Schneider's analysis identifies some deeply embedded features of, in this case, Brazilian society which have both shaped its direction and inhibited processes of change. In relation to Brazil, the institutional structure described by Schneider (2013) and by Nölke et al (2020) generates and reinforces a particular grouping of social actors. On the one hand, there is a powerful and wealthy elite of Brazilian

business families linking land ownership and exploitation of natural resources to ownership of utilities, retail outlets, media organizations, financial institutions and some areas of manufacturing (Cuadros 2016). This group is international in its contacts (and much of its consumption) and often linked into global financial institutions not only through its own wealth invested overseas but also through its encouragement of overseas investors into Brazil (cf. Bresser-Pereira 2015). On the other hand, there is a large underemployed informal economy with populations in deep poverty and with very limited opportunities for advancement and mobility. Between these is a grouping of small and medium sized businesses, professional, scientific, managerial and manufacturing workers in Brazilian and foreign owned firms together with state sector workers with some protected status in terms of employment rights, pension rights and wage bargaining.

The dominant social bloc has generally consisted of large family business and big landowners at its core. One key ally which this group has had throughout its history is the military. During the military dictatorship they were an essential part of a particular social bloc which defended propertied interests in land, banking and industry against what was seen as the threat of communism (Bresser-Pereira 2015). Even as they handed back control to civilian democratic forces in the 1980s, they continued to represent a certain idea of Brazil which has been used both negatively (as a situation to be avoided for most of the recent democratic era) and since 2018 under Bolsonaro, positively, to build an ideological framing for a new social bloc. Brazil has the second largest armed forces in the Americas (after the US) with around 350,000 active military personnel and a reserve of 1,340,000 in 2020, according to the website www.globalfirepower.com.

The military receive generous pension schemes compared to most employees in Brazil. They therefore have interests to protect and power to exert if those interests are threatened.

If business, large landowners and the military have generally been part of the dominant social bloc in Brazil, after the military dictatorship handed over to civilian powers and democratic governance in 1985, they have required allies to sustain a business friendly dominant social bloc in the face of a highly unequal society with large numbers of poor and dispossessed. One group has been proprietors in small and medium sized enterprises; another has been those professional groupings that are increasingly necessary servants to the wealthy, such as managers, lawyers, accountants, management consultants, and workers in the banking sector, in the leisure and personal service trades. Those generally excluded from the dominant social bloc until Lula sought to restructure it were the organized working class (relatively small and dispersed in Brazil) and the much larger group of the urban poor, rural landless labourers and indigenous peoples. In between were large groups of state employees in administration, teaching, health, welfare services, transport etc. whose votes were moveable depending on economic and political conditions and the successes and failures of particular politicians and policies.

Considering these groupings and their various allegiances over the last few decades in Brazil is complex but simplifying to some degree we identify the following phases. Cardoso's election victory in the 1990s after a decade of inflation and uncertainty was seen as bringing stability to Brazil by linking its policies to the centrist Third Way Clinton/Blair type ideology which had become the dominant interpretation of neoliberalism in the international financial institutions, corporate boardrooms and government policy making circles of the time. This expounded the

benefits of deregulated markets, globalization in trade, services and financial flows together with an orthodox approach at the national level to macro-economic stability. One consequence of this approach was the loss in Brazil and elsewhere of low end manufacturing production to China (Jenkins and Barbosa 2012). Third Way advocates tended to see these as poor-quality jobs that needed to be replaced by developing a supply side policy focused on upgrading labour skills and reducing labour regulation, in order to create a knowledge economy capable of generating innovation that would lead to new high value jobs. Cardoso's adherence to this set of ideas fitted uneasily with Brazilian institutions as they had developed over time which were powerfully dominated by conservative interests based in extractive and protected industries with no desire to empower labour or engage in risky and expensive industrial upgrading (Bresser-Pereira 2015).

As the economy stagnated in the late 1990s and early 2000s unable to achieve the sort of take-off which would impact on the poor or the lower working and middle class, Cardoso's efforts to build a social bloc around this approach lost electoral support. Instead after many years of patient build-up, Lula and the Workers' Party with their roots in trade unionism and in movements to empower the poor began to gain support. Social and economic inclusion of previously disadvantaged groups in the context of orthodox macroeconomic policy, plus some upgrading and support for the internationalisation of Brazilian firms was the Workers' Party (PT) growth model in the early 2000s. What became known as 'neo-developmentalism (Doering et al 2017) has also been described as the 'pursuit of progressive outcomes through a "path of least resistance"' (Loureiro and Saad-Filho 2019: 67). Anderson (2019) described this as 'a new ideological road' combining price stability and expansion of the internal market. The common theme in these accounts is the importance of a negotiation between different social groups for the

Lula administration, or the neutralization of conflict (Amable et al. 2019). The Constitution of 1988 had extended the franchise to low income groups which increased the importance of redistribution for the political agenda of the day if parties wanted to get elected (Amann and Barrientos 2016). Simultaneously, however, the interests of powerful business and landowners had to be accommodated. The more Lula could bring together the urban middle and working class as well as the rural poor into a social bloc, the more he could neutralize or diminish the threat from business to his programme. This was a difficult balancing act and in the early stages, in order to secure the support of capital, Lula watered down some of his more radical commitments whilst holding on to his support amongst low income groups. In June 2002 before the election, following threats from capital to withdraw from investment (Campello 2015), he pledged support to a pragmatic mix of targeting and floating exchange rates, and liberalized capital flows in the *Carta ao Povo Brasileiro* (Letter to the Brazilian People) (Bresser-Pereira 2015). Lula's relative financial orthodoxy in his first years led to higher interest rates, cuts to public expenditure, rising unemployment and a fall in the level of growth (until 2004). However, the social bloc broadly held as lower inflation was a popular achievement amongst both workers and employers and relatively high interest rates meant that middle class savers benefitted.

What solidified the social bloc and in particular the support of the poor and the working class was rising economic growth in the mid 2000s. The growth period of 2004 – 2013 saw an increase in per capita GDP by 64% and a rise in the formal employment rate from 49.7% in 2003 to 71.4% in 2012 (Costa 2018: 4). Lula used state power to consolidate support amongst the poor and the working class through the institutionalisation of conditional cash transfers, such as the *Bolsa família* income support for the poor (Tomazini 2019), substantial increases in the

minimum wage year on year (which also led to higher pensions since these were linked to the minimum wage) and thirdly the introduction of credit/bank loans for household purchases to those who had never before had bank accounts, with repayment automatically deducted from monthly wages or pensions. Lavinias (2017) charts the doubling of total wages from R\$1.3tn to R\$2.6tn between 2002 and 2014 and a more than three-fold rise in total credit from R\$861bn to R\$3tn. Together these social policies contributed to decreasing absolute poverty for 24 million households (a reduction of 25%). The *Bolsa Família* reached 13 million households, the *Previdência Social Rural* (PSR) and *Benefício de Prestação Continuada* (BPC), also reached another 11 million households, (Barrientos 2013, Lavinias 2017). In addition to these policies and thus a rising wage-share, stability in the labour market and the creation of 21 million jobs during the 2000s (80% in the formal sector but predominantly low paid, Loureiro and Saad-Filho 2019) led to a doubling of private consumption of goods and services between 2003 and 2010 (Menezes and de Souza 2019).

Most Brazilian landowners, financiers and industrialists were, during the Lula years, supportive as there was a rapidly rising stock market, booming commodity markets overseas, a growing home market, an increased financialization of the society through credit (and consequent expansion of the banking sector) and higher corporate profits. Cheap state lending to large firms through the development bank BNDES was also a crucial support for big business in its internationalisation drive. At the same time, preferential treatment of domestic business groups throughout the privatization process (Amann & Baer 2006, Nölke et al. 2020), the protection of selected industries through local content rules and the reduction in import licenses (May and Nölke 2018) as well as financial support for international and domestic expansion projects

consolidated support from employers. Lula maintained that support by riding out the 2008 financial crash through state spending and other counter-cyclical measures.

Lula's social bloc was, however, precarious. Given the existing institutional structure, how far could it continue to hold at bay potential conflicts amongst its supporters? Earliest to leave were members of the urban middle class increasingly squeezed between a rising poor and resurgent working class on the one hand and an increasingly ostentatious and wealthy set of 'brazillionaires' (Cuadros 2016). The immediate cause of this middle-class alienation came with the *mensalão* scandal of 2004-6. Support from congressional allies of the PT was sought through bribery rather than the previously preferred tactic of parceling out ministries to other parties in return for their support. This alienation was reflected in the changed basis of Lula's electoral support. Although he won the 2006 Presidential election by as large a majority as 2002, his source of support shifted drastically away from the more prosperous south to the poorer north east region (where he took 71% of the vote). The poor and elderly plus the working class were voting for Lula in greater numbers but the middle class was gradually deserting this social bloc (Bresser-Pereira 2015). This trend grew in the subsequent elections of Dilma as more of the middle class found themselves still burdened by high taxes whilst public services remained poor, forcing them to pay privately for education and health. Their privileges and status were being squeezed at the lower end, and the growth of a new super rich at the top end continued to deepen their sense of injustice. In 2010, Dilma won the Presidential run-off by 56% to 44% but in 2014, this dropped further to 52% to 48%, with the PT vote increasingly concentrated in the North East states. Further corruption scandals (known as *Lava Jato*) involving the PT and Lula himself with an emphasis on personal gain rather than party advantage deepened the disillusion particularly as

the commodity boom slowed down and Dilma sought to introduce new austerity measures and threatened higher taxes and higher interest rates (Mendes 2016).

The willingness of business interests to go along with the PT began to wane as the electoral popularity of Dilma fell and groups deserted the social bloc. Powerful business associations, such as Sao Paulo's Federation of Industries, expressed discontent with the government and its policies, returning to neo-liberal language calling for reductions in taxation and regulation. When government policies to stimulate demand dried up, the powerful business associations turned their back on Dilma and her "excessive" state intervention even though she followed an agenda that was closely aligned with the interests of capital (Loureiro and Saad-Filho 2019). This frustration vented itself in the street protests of June 2013 and showed to what extent the original PT support base had been undermined ideologically: "The win-win class conciliation scenario of the 2000s collapsed" (Loureiro and Saad-Filho 2019: 76). Even though Dilma hung on to win the 2014 Presidential election, the social bloc supporting the PT was shrinking. Dilma and the PT proved unable to negotiate compromises amongst the various members of the social bloc as funds dried up and the ability to distribute material benefits decreased. Further, the ideological glue of the social bloc in terms of the 'new developmentalism' bolstered by Lula's success in reducing inequality and by the global prestige that he had garnered by the force of his personality and his promotion of the idea of the BRICs was also collapsing. It was increasingly undermined by corruption, incompetence, the threat of rising personal and corporate taxes, and the growing dissatisfaction with public services.

Dilma was removed from office in 2016 following various manoeuvres in the legislature and the Supreme Court. Although her supporters organized demonstrations, these were more than

matched in scale by her opponents. She was unable to mobilise sufficient supporters on the streets or in the legislature to stay in power, illustrating her growing inability to sustain Lula's social bloc. Dilma was replaced by Temer, her vice-President, who was now articulating a neo-liberal discourse about how Brazil could overcome the rapid decline of its economy in the mid 2010s by increasing use of markets. Whilst Temer's own proximity to corruption ruled him out of the running for the next Presidential election, Lula, who was himself in theory eligible, was also taken out of the frame by legal proceedings which put him in prison at a crucial period. By the time of the 2018 election, Lula's PT was weak and dispersed. There was no obvious candidate for the neo-liberals, but it was clear that the key business actors were in the process of reconstituting the social bloc by ejecting organized labour and the underemployed and poor in cities and in the countryside, and shifting the ideological discourse of the new bloc towards neo-liberalism and away from neo-developmentalism. Bolsonaro's election victory in 2018 suggested the possible emergence of a new dominant social bloc led by business and the middle class but leavened with support from the military and evangelical Christians drawing on an ideological combination of neo-liberalism, machismo, militarism, religion and populism to build bridges across a range of middle-class groups. Bolsonaro's volatility, revealed particularly in the COVID crisis has, however, undermined any stabilization of the social bloc which brought him electoral victory, leaving Brazilian politics in a state of some disarray in mid 2020.

Institutions, Social Blocs and Growth Regimes

The changes in social blocs described reveal that the main changes during the Lula/Dilma era were in the sphere of consumption rather than production. They consisted of changes to the

welfare regime that boosted the consumption of the poor, some changes in wages and pensions regulation that boosted the consumption of the working class and the new middle class and a process of financialization that boosted the consumption of much of the Brazilian population by making credit easier to come by and facilitated the enrichment of a new group of brazillionaires (Lavinás 2017). In terms of production, the main changes during this period were to provide state financial support for Brazilian companies in the extractive and agricultural industries to support them growing internationally (Schneider 2015). Meanwhile traditional manufacturing in areas like textiles and low-level engineering declined due to the growth of imports particularly from China in the 2000s, also reducing Brazilian companies' ability to sell these products in its home region.

This growth regime relied upon a boom in commodity exports which was advantageous to the large landowners and big corporations that increasingly controlled Brazil's exploitation of raw materials and agricultural production. In particular demand from China which continued through the decade and past the 2008 Global Financial Crash powered this growth reshaping the Brazilian economy by increasing raw materials exports from 28% to 41 % of total value in Brazil in the period 2002-2009 whilst manufacturing exports slipped from 55% to 44%. The impact of this shift has been the subject of a lively debate amongst Brazilian economists (e.g. Carvalho and Rugitsky 2015, Silva de Jesus et al. 2018, Rolim 2018). Rising foreign exchange earnings boosted the value of the Brazilian currency which in turn increased foreign manufactured imports by making them cheaper to Brazilian consumers. It also increased purchasing power for Brazilians overseas which was particularly advantageous to the cosmopolitan rich and wealthy as well as enabling Brazilian MNCs to buy overseas companies. It also led to increased financial flows as banking institutions and others sought to gain from the rising economy, its strong

currency and relatively high interest rates. Brazilian banks expanded their facilities for personal credit to boost markets in housing, cars, student loans and other items of consumption, benefitting banks, retail outlets and services. Manufacturing exports, particularly low value one, however, were further undermined by the high value of the currency weakening the position of Lula's allies in the organized working class.

Whilst state revenues were high, they were directed into supporting Brazil's extractive industries or into public infrastructure projects associated with the high prestige events of the World Cup in 2014 and the Olympics in 2016. In both cases, public funds were relatively easily privatized, partly legally but also illegally by corruption around contracts that were never properly delivered. Efforts to shift towards a more knowledge driven economy where higher value export-oriented goods and services could have been developed were, by contrast, limited and lacked the visibility of the half-completed infrastructure projects that enriched large companies and their owners. Little was achieved to improve and extend effective universal state education for school age children or to increase state funded free university education, as opposed to allowing in highly commercialised overseas based private universities which charged fees for a relatively low level of undergraduate education for much of the student population (Schneider 2015). Rising expenditure in labour intensive urban services, in particular hospitality, supported the growth of low-wage, low-skill jobs (Loureiro and Saad-Filho 2019). The institutions remained locked into a low skill equilibrium which made it difficult to move beyond low skilled manufacturing and services except in certain specific areas (Embraer and its supply chain being an example of a high-tech network of firms coordinated in a globally competitive market, cf. Schneider 2015). Whilst agriculture and extractive industries could be improved by the application of science and innovation (cf. Hopewell 2016), in the Brazilian context, given the

scale of land, forests and private ownership, they remained broadly low value, mass production sectors with limited high value-added activities in Brazil itself. As Iversen and Soskice (2019) point out, landowners in particular are unlikely to see the benefit of educating the mass of the population both in terms of the potential tax cost to themselves and because education may raise expectations in many ways. Boosting education requires the development of strong alliances between manufacturers seeking skilled workers, professional and middle-class families anxious to provide education and high-quality job opportunities to their children and local states with uncorrupted bureaucracies with the competences to guide and promote industrial activity. Lula and Dilma lacked the institutional resources and the stable social bloc to facilitate the shift to such a growth model and therefore the growth regime continued to focus around commodities which in turn increased the powers of the most conservative groups who opposed education.

This growth regime based on commodity exports, however, was highly vulnerable to downturns in the demand for commodities and as global economic growth slowed again in the early 2010s, this time accompanied by a slowdown in China, prices of commodities fell as did the quantity of exports. The result was that by 2015, Brazil had entered a recession which wiped 8% off its GDP in two years, saw unemployment rise to 12.7 % by 2017 and 23.8% of the economically active population being underemployed (Hunter and Power 2019: 71). A rapid feedback loop led from collapsing commodity prices to stagnating wages and lower consumption for the middle class because of the rise in price of imports as the currency fell and interest rates on credit cards and borrowing increased. Further effects were tightening welfare expenditure and declining public services. By 2016, Brazil was back to a growth model defined by commodity exports at a time when demand for these products was falling.

Post 2016, under Temer and Bolsonaro, elements of a more neo-liberal regulatory frame were put into place to combat the decline in GDP. Taxes were reduced, interest rates lowered, public expenditure cut, various labour market protections and pension rights removed and environmental legislation and its enforcement weakened. The goal was to reduce costs for extractive and agricultural industries, as well as for manufacturing in order to grow exports. The neo-developmental growth agenda with a commitment to expanding consumption at ‘the bottom of the pyramid’ through welfare measures was effectively abandoned. The main beneficiaries of the renewed export led growth regime were the wealthy landowners and large corporations. The urban middle class made some gains from lower taxes, lower interest rates, cheaper personal services and a continued expansion of professional jobs in banking, finance and administration. However, their expectations of improved and more efficient public services and less corruption were soon disillusioned as Temer and Bolsonaro were accused of corruption. The main losers from the emergent growth regime were organized employees in the formal sector, landless labourers and indigenous peoples (in areas of the country now subject to increased exploitation by large companies due to lapsing environmental regulations) and the casual labourers of the urban favelas. As a result, Brazil continues to be the most unequal Latin American country, and in spite of the Lula reforms, there is little lasting change in structural inequalities (Costa 2018).

Conclusions

Our analysis indicates that Brazil’s institutions have, for decades been locked into a low skill equilibrium and a highly skewed distribution of income in favour of capital (due to restricted land ownership and family and personal control of many large business groups). These

institutions make it difficult to move beyond standardized commodity exports and low value manufacturing and services. Social blocs which are the potential vehicles for such shifts have been dominated in Brazil by large landowners and employers with their allies in the military that have opposed such a change. For Lula, the challenge was to build a social bloc which would enable him to extract significant concessions out of business corporations and the wealthy. He sought to do this by offering support to business in the hope that this would also allow him to develop policies to reduce inequalities and boost the income and living conditions of the working and non-working population in cities and the countryside without directly confronting the privileges of the wealthy and the middle class. He sought to bring in sections of the middle class, the organized urban working class and the poor and meld a social bloc and growth regime within which there could be policies that appealed across this range of groups. His emergent neo-developmental growth regime was based mainly on commodity exports but also included an effort to boost high value manufacturing and home-based consumption. Whilst there were a small number of successes in creating high value clusters, there was no major shift in Brazil's institutions because of lack of interest from capitalists who were able to capture profits more easily from commodities, financial markets and high interest rates, government supplied utility contracts and oligopolistic control of retail, the media and banking. They were unwilling to undertake the risks of shifting into knowledge based industries or funding the educational and infrastructural investment which would have been necessary to shift Brazil along this trajectory. The social bloc which Lula had built began to split apart as the limitations of the growth regime appeared to the middle class and employers, when falling commodity sales due to the global economy led to lower government revenues and to the threat of new taxes and new tax rates from Dilma and her supporters to bridge the gap. Employers started to re-articulate a neo-liberal

framing for a new social bloc which Temer and Bolsonaro sought to forge, based on an export led commodity growth regime, reducing state expenditure including on pensions, and reducing labour market protections for those in formal employment. Whether this is the beginning of a new social bloc and growth regime is unclear given the continued uncertainties in the global economy (including its collapse in 2020 due to COVID) that impact on demand for commodities and on the volatility of Bolsonaro's populist politics.

In terms of theoretical contribution, our approach recognizes the key constraining and enabling role of institutions. The sphere of politics and the formation of social blocs is emergent from institutions and dependent on the development of a growth regime which is supported by existing institutions. However, our research points to the importance of mismatches between institutions and growth regimes induced by endogenous and exogenous economic conditions which lead to crises of material and ideological reproduction. Social blocs are the political means whereby such mismatches are managed in order to reform and adapt; alternatively, social blocs may be unable to negotiate such adaptation leading to their decline and replacement by previously excluded groups. Social blocs are the sites within which political struggles over change and adaptation take place and key research questions, therefore, need to focus on who the social actors are within the bloc, and how, why and to what degree they are attached to it – or alternatively detachable from it? Does the social bloc and its political leadership have the capacity and capability to restructure institutions and growth regime policies to adapt to challenges in the wider environment and if so, is this adaptation characterised by repression, redistribution or reform? Under what conditions do crises arise that threaten dominant social blocs and how are potential fractures in the social bloc contained and managed or alternatively how are groups attracted from one social bloc into a challenger bloc? Another set of questions

arises about those excluded; how are they able to build alliances and extract groups from the dominant social bloc to their own side? Under what conditions are they capable of identifying a different growth regime and reforming institutions in ways which reinforce their own powers and weaken those of other groups? How do growth regimes emerge? Are they products of ideational changes, of incremental changes in the structure of the economy in response to external pressure or do they arise as internal social actors, such as employers, suppliers of capital and labour shift their efforts into newer, more profitable arenas of accumulation?

In many emerging economies, the tensions, which we identify in Brazil, are being replayed and could be analysed using this framework and the research questions suggested. The obvious set of comparisons here remains with those countries in Asia that have lifted themselves out of the middle income trap as well as the many that still remain locked into it. Since Gereffi and Wyman's edited book (1990), there have been limited efforts to compare the trajectories of capitalisms in the two areas. However, sharing a common language and framework around institutions, social blocs and growth regimes marks a step towards identifying commonalities and differences between societies and the outcomes of their trajectories over the last few decades. Such an approach can also be extended to the varying patterns of capitalist development emergent in Africa where similar issues of commodity production and the resource curse are present. The ability to create a developmental state that stands above and apart in some cases from particular interests has been frequently linked to the ability of some Asian emerging economies to develop leading social blocs and growth regimes that can adapt, sustain and reinforce particular institutional configurations (see e.g. Evans 1995; Wade 1990; Carney 2018) whilst overcoming conservative forces embedded in land ownership and commodity production.

Shifting the balance in a growth regime from reliance on commodity exports to higher value added goods and a dynamic home market is a key area to be investigated as it requires an understanding not just of institutional constraints but also of the active role of the dominant social bloc in managing such a transition and moving out of the middle income trap.

This framework can also have value in developed economies. For example, in their analysis of advanced capitalist democracies, Iversen and Soskice (2019) argue that these societies are given their relative stability by the existence of firstly a skilled working and middle class that is dependent on a local economy which produces knowledge based, high value products and secondly a form of capitalism which is dependent on those skills to generate profitable innovations and new markets. This interdependence links a broad social bloc together in ensuring that institutions reform and adapt to the prerequisites of such a growth regime, e.g. good quality universal education, advanced technical training, university education, effective health and welfare systems, flexible financial markets. However, they also recognize that this system has been weakening because of the rise of inequality, the application of austerity and the development of populist politics. The growth regime has become too tilted towards the rich and the powerful and has taken for granted groups which have not received much material benefit from the system for decades and in ideological and cultural terms have become increasingly alienated from the discourse of the elites (see e.g. Mudde and Kaltwasser 2017). The disjuncture between institutional structures, social blocs and growth regimes which has afflicted emergent economies, keeping them in the middle-income trap, is now afflicting the advanced capitalist democracies. Thus, it makes sense not to treat these as two different worlds; but to recognize that our studies of comparative capitalisms, whether in the advanced economies or emerging

economies, need to develop on the basis of a new examination of the inter-relationships of institutional structures, social blocs and growth regimes.

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Figure 1: Linking institutions, social blocs and growth regimes

