FISCAL POLICY AND CLASS CONFLICT IN BRAZIL (2000-2019): the net social wage and the limits of the redistributive experience

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ABSTRACT[2]:

The distributive growth experience in Brazil during the past two decades relied on two significant pro-labour policies: the periodical readjustment of the minimum wage and the incentives to reduce informality. Some authors locate them at the origins of the profit squeeze that lay at the roots of the Brazilian economic and political crises (Dweck and Teixeira, 2017; Serrano and Summa, 2018; Martins and Rugitsky, 2021). Their interpretation departs from Kalecki's contribution, suggesting that rising labour bargaining power has motivated political reactions from the capitalist class that aimed at reducing state intervention in the distributive conflict. These efforts, however, have not discussed in detail the redistributive role played by the state. This article addresses this issue by following the net social wage (NSW) debate, which goes back to the interpretations of the 1970s accumulation crisis in the US (Bowles; Gintis, 1982). By estimating the net social wage for the Brazilian economy in the 2000-2019 period (the net government provision to the working class), it demonstrates that the NSW presented an upward trend in Brazil between 2004 and 2017. These results suggest that the Workers' Party has engaged in a pro-redistribution attempt that relied on the activation of constitutional redistributive mechanisms that produced an enduring pro-labour orientation in fiscal policy. During the economic boom, the net social wage increased thanks to the combination of incentives for formalization and the guarantee of real wage gains and the expansion of spending on social assistance, health, and education. After 2010, the economic slowdown and the reduction of fiscal space became obstacles to the growth in government spending. However, there was no reduction in the net social wage. This fact was due to the increase in social spending, especially associated with social security. It shows the resilience of a pro-labour fiscal policy associated with the enduring effects of the constitutional redistributive mechanisms activated by the Workers' Party. Therefore, the net social wage indicates that state redistribution contributed to the cyclical profit squeeze between 2009 and 2014. Moreover, the resilience of a pro-labour fiscal policy due to social spending expresses the importance of the fiscal discourse for the capitalist political reaction after 2014. It helps to interpret not only the deepening of austerity measures but also the structural reforms: more than a short-term interruption in the pro-redistribution attempt, the following governments engaged in the elimination of the institutional redistributive mechanisms constitutionally assured since 1988.

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1 INTRODUCTION

Lately, Brazil has experienced institutional changes that impacted the potential of the redistributive model envisioned by the Federal Constitution of 1988. The first occurred in 2016 when the National Congress approved a 20-year spending ceiling which limited government expenditures growth in real terms. Then, in 2017, the labour legislation underwent an unprecedented reformulation, the most significant since its establishment in 1943. It aimed at the flexibilization of employment agreements and remuneration schemes, as well as the decentralization and individualization of negotiations between employers and employees. Finally, in 2019, the reform of the Brazilian pension system focused on the fiscal burden of an ageing population, removing part of the constitutional safeguard of its benefits.

These changes took place in an unfavourable political momentum for the Brazilian working class, as they occurred right after the interruption of fourteen years of successive governments led by the Workers' Party (2003-2016). As broadly documented, most of this period combined economic growth and income distribution, which allowed the government to reduce poverty and inequality. Besides the well-known experience of the *Bolsa Familia*, literature consents on the role played by two policies in improving worker's income through changes in the labour market: the periodical readjustment of the real minimum wage, which grew at an annual average rate of 5 per cent between 2000 and 2014; and the strong incentives to reduce labour informality, which decreased 1.5 per cent per year from 2004 to 2013 (Melo et al., 2012; Medeiros, 2015; Brito; Foguel; Kerstenetzky, 2017; Rugitsky, 2017; Dweck et al., 2022). As real wage gains and growing formal employment implied the strengthening of labour bargaining power, those policies are fundamentally related to the distributive conflict.

After 2009, when changes in the external and domestic conditions for capital accumulation led to an economic slowdown, the Brazilian distributive conflict intensified. Evidence indicates that a falling profit income share negatively affected profitability, pushing the capitalist class against the political agreement that forged the distributive growth experience (Martins and Rugistky, 2021; Marquetti; Hoff and Miebach, 2020; Marques and Rugistky, 2020; Saramago; Freitas and Medeiros, 2015; Boito and Saad-Filho, 2016; Singer 2020). Turning back to Kalecki's argument on the Political Aspects of Full Employment, the agenda of fiscal consolidation adopted after 2014, the interruption of the mandate of Dilma Rousseff and the aforementioned structural reforms that followed suggest that capitalist reaction moved against the redistributive role of the Brazilian state.

Based on the political economy debate on the redistributive role played by the state in the 1970s accumulation crises in the United States, this article reconstructs the trajectory of the Brazilian fiscal policy from 2000 to 2019. It focuses on how it could have contributed to the rising class tensions that anticipated the broke out of the political and economic crises after 2014. For this, it estimates the net social wage (the net contribution of fiscal policy to the working class) for the Brazilian economy during that period (Bowles and Gintis, 1982; Shaikh and Tonak, 1984; 2000; Maniatis, 2003; Maniatis and Passas, 2014; Moos, 2019; Moos and Qi, 2022). Results show an upward trend in the net social wage from 2004 to 2014, indicating that the Brazilian fiscal policy has acquired an increasing pro-labour orientation. The trajectory of the net social wage suggests a rise and fall of a pro-redistribution attempt during the Workers' Party administration. Its main feature concerned the activation of the redistributive mechanisms constitutionally established during the Brazilian re-democratization.

By fostering the formal labour market and assuring the increase in the minimum wage, these governments triggered an enduring pro-labour fiscal policy sustained by the growth of social spending, mainly related to social security. After 2010, when the economic slowdown and the fiscal deterioration forced the contraction of government expenditures, the resilience of social spending expressed the continuity of the pro-redistribution attempt even with the turn towards austerity in 2015. Hence, the upward trend in the net social wage for Brazil indicates the potential contribution of the state to the escalation of the distributive conflict. On the one side, there is room to reinterpret the cyclical profit squeeze between 2009 and 2014 in light of the state intervention. On the other, it helps to understand the austerity discourse that pervaded the process of Rousseff's impeachment as well as the reforms that followed her removal in 2016.

This effort also aims to contribute with two approaches. The first concerns the literature that measures the redistributive role of the Brazilian state according to survey microdata in Brazil (Medeiros; Souza and Castro, 2015; Silveira et al, 2020). As these studies focus on the impacts of redistribution on inequality by looking at the personal income and aspects concerning the division between labour and capital, they do not explore the relation between redistributive policies and business cycles and the political economy of the redistribution in detail. The second refers to the attempts to interpret the economic determinants of the political crisis in Brazil by focusing on the distributive conflict. This literature has largely focused on the primary dimension of the distribution, which does not emphasize the specific role played by state policies in mediating capital-labour relations.

In addition to this introduction and the final considerations, this article has four other sections. Section 2 discusses the origins of the net social wage literature by assessing the debate on the 1970s profit squeeze crisis in the United States. Section 3 presents the role played by the distributive conflict to the Brazilian political and economic crises and stresses the importance of the fiscal policy in that context. Section 4 explores the argument presented in section 3 by detailing fiscal policy trajectory during the Workers' Party governments, focusing on cyclical, policy, and institutional determinants. Section 5 presents the method and the main results for the net social wage estimation from 2000 to 2019. Finally, section 6 analyses the political economy of the redistributive fiscal policy in Brazil.

2 FROM THE PROFIT SQUEEZE THEORY TO THE SOCIAL WAGE LITERATURE

In the 1970s, the persistent effects of the accumulation crisis resulted in increasing setbacks to the labour movement in central capitalist economies. O'Connor (1981, p. 110) suggested that a "massive reorganization or restructuring of capitalism on a world scale" was in process, being its immediate consequence "a massive reduction in the working class living standards". With the intention of explaining this turnover in the post-war welfare experience, Marxist political economy resurged around a common understanding that other interpretations had been failing to explain the contradictions of capital accumulation in the light of the triad capital-labour-state (Bowles; Gintis, 1982; Bowles; Gordon and Weisskopf, 1986; Shaikh and Tonak, 1987).

The debate was especially prominent for the United States economy, which had been experiencing a combination of inflation pressures, budgetary cuts in social policy and reduction of labour rights. According to Bowles, Gordon and Weisskopf (1986), the moment indicated the destruction of two main pillars of the post-war economy. First, the "capital-labour accord" – an agreement that preserved capital's control over the decision-making process of the enterprise in exchange for better working conditions and working-class gains along with labour productivity –, and the "capital-citizen accord" – an arrangement that allowed the state to balance the conflict between capitalists' pursuit for profits and people's demand over better socio-economic conditions.

Several authors agreed on the ephemeral nature of these agreements once they relied on unsolvable tensions originating from the distributive conflict between labour and capital over national income. For instance, some estimations indicated that from the late 1940s to the early 1970s, short-term booms and busts had been accompanied by decreases in the profit share of national income and elevations in the wage share "in the latter half of every expansion", which could be associated with a long-term fall in the profit rate in the US economy (Boddy and Crotty, 1975, p. 1; Weisskopf, 1979). The profit squeeze was especially prominent between 1965 and 1972 when the economic crisis broke out. This moment preceded a "weakening of the labour movement […], the rise of unemployment, and of course, the notoriously anti-working-class policies of the national administration in the 1980s" (Michl, 1988, p. 11).

Some authors defended that the profit squeeze was a consequence of the effects of the falling unemployment on the labour bargaining power, implying that a constrained reserve labour army would have forced wages up and generated a *wage-induced profit squeeze* (Boddy and Crotty, 1975; Weisskopf, 1979; Goldstein, 1996). This hypothesis suggested a "successful class struggle waged by labour against capital" (Boddy and Crotty, 1975, p.1), even with Weisskopf's (1979, p.372) remarks on the "defensive" nature of the profit squeeze: it might have derived more from the effects of the deterioration in terms of trade than from workers' ability to benefit from productivity gains.

Nonetheless, it had little to inform about the second pillar of post-war agreements in the US economy – the "capital-citizen accord" –, or the potential influence of government policies on the accumulation crisis. The few insights on this topic are owed to comments of Boddy and Crotty (1975, p. 5) on Kalecki's (1943) argument that a deliberate full-employment policy promoted by the government could foster reactions of the capitalist class. According to Kalecki (1943, p. 330), even considering that full-employment policies could result in both rising wages and profits, a diminishing reserve army of labour (and rising bargaining power of the working class) would be risky to capitalists. The capitalist reaction "would most probably induce the government to return to the orthodox policy of cutting down the budget deficit".

Boddy and Crotty (1975) disagreed with Kalecki on the capitalist class's reaction to full-employment policies in the context of rising profit margins. They believed that full-employment policies would inevitably lead to a *wage-induced profit squeeze* due to the insoluble contradiction between wages and profits. In such a context, capitalists would resort to the government's ability to guarantee labour discipline by actively promoting unemployment via fiscal (cutting expenditures) and monetary (combatting inflation) policies. Accordingly, the government intervention in the distributive conflict would pursue the objectives of the capitalist class and "ensure that the alternating pressures for expansion and contraction emanating from the private sector result in that cyclical pattern most conducive to long-run profit maximization" (Boddy; Crotty, 1975, p. 10; Sherman, 1976). To Bowles and Gintis (1982, p. 57), both contributions of Kalecki (1943) and Boddy and Crotty (1975) attributed a simplistic role to the state, which would fundamentally reflect the interests of capitalists in "disciplining labour and restoring reserve armies". This would represent a shared misconception in Marxist theory, as it conceived the state as no "more than a dependent variable in the process accumulation" which would "respond maximally if for different reasons, to reproduce the conditions of accumulation" (Bowles and Gintis, 1982, p. 57-59).

Bowles and Gintis (1982) argued that the coexistence of modern capitalism and liberal democracy has increasingly required the state to assume more than a regulatory role over capitalist dominance (protecting property and preventing labour organization). This context demanded the expansion of the role played by the state from the responsibility for "enforcing the rules of the game" to the concrete regulation and constitution of capital-labour relations: "through policies concerning immigration, family structure, regional development, schooling and technical research, the state is now a critical part of the determination of the reserve army", a phenomenon previously restricted to capital-labour conflict (Bowles and Gintis, 1982, p. 56). It implied that the post-war capital-labour accord meant "the emergence of the state as a major locus of class struggle" (p. 70), which has been fundamentally resumed in (i) the distributive contests over the value of wages, and (ii) the amount of public spending directed to the working class. Nevertheless, while the profit squeeze literature had discussed the first, it did not offer an assessment of the second. Therefore, based on estimations that showed a stagnant labour share and falling profits in US non-financial sector, Bowles and Gintis (1982) suggested that state provisions to the working class were more important than wage gains to explain why the post-war economic model reached its paroxysm in the transition to the 1970s.

The argument stated that the growing participation of the "citizen wage" – or net social wage[3] – "that part of a person's consumption supplied by the state by virtue of his citizenship rather than directly acquired by the sale of labour power"- had promoted consistent income redistribution from capitalists to workers throughout public social expenditures. These would have been significant in subsidizing the reproduction of the working class in the US post-war economy: the provisions allowed workers to bear some of the social reproduction costs that otherwise would have been covered by wages[4]. However, contrary to expected, the rising net social wage would not have been able to *"*enhance aggregate demand and support a higher rate of profit*"* undefinedly. It has exerted pressure on capital income, assuring that "distributive gains made by workers were not achieved in their direct confrontation with capital over the bargaining table, but in the state" (Bowles and Gintis, 1982, p.68-70). In sum, instead of a *wage-induced profit squeeze*, Bowles and Gintis (1982) suggested the existence of a "*state-induced profit squeeze*" (Maniatis and Passas, 2018, p. 4).

Shaikh and Tonak (1987; 2000) contested Bowles and Gintis' (1982) method and results. By re-estimating the net social wage for the US economy, these authors showed that it had been negative for most of the post-war period. Therefore, instead of supporting working-class reproduction and promoting redistribution, the state would have been draining income from workers[5]. Consequently, the post-war state policy did not represent a barrier to rising labour exploitation, being the *wage-induced profit squeeze* hypothesis more plausible[6].

Shaikh and Tonak's (1987; 2000) estimation consolidated the social wage as a tool to evaluate the state's contribution to the distributive conflict and inaugurated a Marxist tradition that has been replicating the social wage estimation and proposing methodological adaptations, not only for the United States but also to other countries: "there exists currently a well-developed and generally accepted method of allocating state expenditures and taxes to the different classes, especially, labour and estimating the net transfer or net social wage" (Maniatis and Passas, 2018, p. 5, Akhram-Lodi, 1996; Shaikh and Tonak, 2000; Maniatis, 2003; 2013; Reveley, 2006; Maniatis; Passas, 2018; Fazeli; Fazeli and Shaikh, 2019; Moos, 2019, Missos, 2020; Moos and Qi, 2022).

Recently, however, the net social wage literature focused on the redistributive role of the state in a neoliberal context. It has been investigating whether the structural changes in capital accumulation that occurred after the 1970s altered not only the trajectory of social wage

[3] "Citizen wage", "social wage", "net transfers", and "net tax" are all synonyms that refer to the social provisions from the state to the working class.

[4] Following this, the net social wage affects the value of the labour force and directly influences the determination of the reserve army. Hence, it is associated with movements on the exploitation rate (Bowles; Gintis, 1982; Marshall, 1984; Oliveira, 1985; Shaikh and Tonak, 1987).

[5] According to Shaikh and Tonak (1987, p. 184), "a rising level of social expenditures would not in itself imply a rising burden for the system, since it could merely represent a rising amount of income re-circulated via state".

[6] Still, Shaik and Tonak's estimation demonstrated that, between 1969 and 1975, the crisis peak, the social wage presented a sharp increase. It could suggest a contribution to the profit squeeze. The authors, however, highlighted that this move expressed the anticyclical nature of the social wage: "because unemployment insurance and welfare payments accelerate with this jump in crisis-induced unemployment, benefits rise sharply relative to wage bill even though taxes paid per dollar of wage continue more or less on their long-run trend" (Shaik; Tonak, 1987, p. 190). In conclusion, the increase of the social wage would not have been the cause of the crisis but its consequence.

estimations but also the meaning and the importance of the latter in the light of neoliberal capitalism (Harman, 2008; Blank, 2014; Maniatis and Passas, 2018; Moos, 2019; Missos, 2020, Moos and Qi, 2022). Findings suggest that the existence of a neoliberal state does not necessarily imply a reduction in social spending or a negative net social wage (Harman, 2008). From the 2000s onwards, social spending increased more than tax revenues from workers in developed economies. Some authors attribute this contradictory move to the combination of, first, low growth rates and higher social instability (which triggers automatic stabilizers more frequently); second, the ageing population (which demands more social expenditures); but, above all, from a structural change in policy conduction (Maniatis and Passas, 2018; Moos, 2019). While stagnant real wages and deteriorating social protection prevent the rise in labour costs and sustain capital profitability, the contradictions manifest themselves in the role played by the state: the less central it becomes to capitalist production, the more relevant it is to guarantee the minimal conditions for labour reproduction. According to Moos (2019, p.20), *"*the net social wage data demonstrate that neoliberal fiscal policy mix is not less expensive for the state, but actually requires greater redistribution to labour*"*.

Therefore, the underlying hypothesis is that a rising net social wage paradoxically derives from the increasing fragilization of the working class in neoliberalism. In that case, different from the post-war period, neoliberal management of the economy would have been characterized by social protection schemes oriented to low-income strata. Based on focalized, means-tested income transfer policies, they might have been generating *"*cyclical and structural threats to social reproduction, including prolonged joblessness, high healthcare costs, and degradation in the quality of work*"* (Moos, 2019, p. 21). Hence, the problem presented by the contemporary social wage literature diverges from the one posed by Bowles and Gintis (1982) and Shaikh and Tonak (1987): if, in the latter approach, a positive social wage indicated the state's fiscal ability to reduce pressures over the working class exploitation; in this new approach, a positive social wage becomes a consequence to rising labour exploitation. In sum, an increasing social wage in neoliberalism would indicate more a (quantitative) enlargement of the social protection network than a deeper (qualitative) presence of the state in subsidizing the reproduction costs of the working class.

3 FISCAL POLICY AND THE BRAZILIAN DISTRIBUTIVE CONFLICT IN THE 21st CENTURY

Following the debate presented in the past section, it is noteworthy that fiscal policy was at the roots of Brazilian economic and political crises that culminated in the interruption of almost fifteen years of left-wing governments led by the Workers' Party (2003-2016. First, the impeachment process that removed Dilma Rousseff from office in 2016 was fuelled by the discourse of fiscal responsibility, as accusations against her laid on the use of institutional manoeuvres to balance the public budget during the 2012-2014 period (Carvalho, 2018). Second, many suggested that macroeconomic mismanagement helped to produce the economic slowdown and contributed to the deterioration of public finance. Some approaches blamed the excessive state interventionism and non-conventional policy mixes for the economic downturn. Others, on the contrary, emphasized that political pressures toward fiscal consolidation forced a reduction in aggregate demand and growth deceleration (Rossi; Mello; Bastos, 2019; Chernavsky; Dweck. Teixeira, 2020). Regardless, as broadly emphasized by the literature, the economic agenda put in place after the removal of Rousseff was oriented toward a retrenchment of the government's autonomy over fiscal policy: at the end of 2016, the just set Michel Temer's cabinet engaged in the effort to approve the Constitutional Amendment nº 95/2016 which imposed a "no real growth" cap for government expenditures for twenty years (Dweck et al., 2022, p.21; Orair; Gobetti, 2017).

Despite the political narrative, Rousseff's government faced a significant fiscal deterioration during its last years. According to Orair and Gobetti (2017, p.13), "the average primary surpluses of 2.8 per cent of GDP between 2005 and 2013 transformed into a 2.5 GDP deficit in 2016 […]" which implied a "rapid rise of net debt in Brazil, which between 2014 and 2016 increased 13.3 percentage points as a proportion of GDP (from 32.6 per cent to 45.9 per cent), more than triple the primary deficit accumulated during this brief period". Nevertheless, this situation was not representative of the fiscal policy performance during most part of the Workers' Party administrations. Between 2004 and 2013, the government sustained primary surpluses that were larger than in other economies, being praised by international credit rating agencies (Orair; Gobetti, 2017; Serrano; Pimentel, 2017).

The exceptionality of Rousseff's fiscal policy results indicates that it might have reflected rising tensions between labour and capital in Brazil. As suggested by the attempts to empirically interpret the influence of the distributive conflict on the interruption of Rousseff's mandate, Brazilian workers have managed to incorporate the gains of output growth during the Workers' Party administrations. This process has become costly for capitalists as both the economic deceleration and the rising wage share of income led to a gradual profit squeeze. In the end, the political crisis would have had its roots in the rupture of the class coalition that sustained most of the Workers' Party government (Marquetti; Hoff and Miebach, 2020; Martins and Rugitsky, 2021; Marques and Rugitsky, 2020; see also Singer, 2020, and Saramago; Freitas and Medeiros, 2018). Although the government moved to accommodate rising capitalist demands via fiscal policy (tax incentives and subsidies), it was not enough to detain profitability from falling or sustain private investment. Faced with the rising bargaining power of workers, capitalists would have then recurred to political action, forcing the government to cut down expenditures to diminish pressures over their gains or to contain generalized social uprising (Kalecki, 1943; Boddy and Crotty, 1975; see also Marques and Rugitsky (2020).

On the other hand, Serrano and Summa (2018) disagree on the nexus between falling profitability and lower investment rates. The authors argue that it was the turnover in fiscal policy towards austerity in 2015 that hit aggregate demand and drove the economy down: "the deceleration of private companies' investment growth seemed to have been caused by the fall in aggregate demand growth" (Serrano; Summa, 2018, p. 186). Nonetheless, it does not mean that the capitalist class did not react politically to the distributive conflict. In this case, the reaction would have been motivated by the consequences of changes in the Brazilian labour market between 2004 and 2014, which implied an "accented fall in the rate of unemployment and other social and institutional elements that increased the workers' bargaining power way more than expected" (Serrano and Summa, 2018, p. 177). Dweck and Teixeira (2017) follow the same argument and affirm that labour market transformations were at the roots of the political economy of fiscal policy in Brazil during the Workers' Party administrations: distributive gains linked to falling unemployment, decreasing informality, and rising minimum wage payments would have provoked reactions to the role played by the government in labour market interventions.

The potential influence of the fiscal policy over the Brazilian rising class tensions after 2010 is also identifiable by considering the redistributive impact of government spending and taxation during the period. It became possible by resorting to the literature that investigated the changes in Brazilian inequality, following the personal income distribution provided by survey data. Recent findings suggest that the economic boom that started in 2004 was accompanied by a pro-poor redistribution, even though some studies indicated a persistent inequality associated with the concentration of income appropriated in superior strata (Medeiros; Sousa; Castro, 2018). Evidence concerning the three versions of the Brazilian consumer survey (*Pesquisa de Orçamentos Familiares (POF) – 2002/2002, 2008/2009, 2017/2018)* suggests that fiscal policy was central to promoting income redistribution and reducing income inequality in the first two decades of this century in Brazil. It occurred despite a regressive tax system – as personal income tax is not progressive enough to overcome the burden that indirect taxation produced on low-income strata – and mainly due to the growth of government expenditures during the period, especially concerning income transfers associated with social security and assistance, as well as the public provision of health and education services (Silveira, 2008; 2012; Silveira et al., 2011; Silveira; Passos, 2017; Silveira et al., 2020; Silveira et al., 2021; Cornelio et al., 2022; Silveira and Palomo, forthcoming)[7]. Based on the POF 2017/2018, Silveira et al. (2020) estimate that the Gini index decreases by 7.3 per cent when income transfers are included in total income. Regarding public education provisions, this effect hits 5.22 per cent (Silveira et al., 2021).

Changes in the labour market contributed to the redistributive effects of fiscal policy via two main channels. The first was the sharp increase in the minimum wage between 2004 and 2014. The second was the significant expansion of formal employment during the same period. Both channels are related to the existing Brazilian legislation established years before. Since the re-democratization, the Constitution of 1988 has assured that social security (and part of social assistance) benefits must be anchored by the national minimum wage (Delgado; Jaccoud; Nogueira, 2009; Rangel et al. 2009). During Lula's first mandate, the labour movement demanded a government's commitment to real gains in the minimum wage. The response was a policy that established an annual readjustment considering inflation losses and the real growth in GDP from the previous year (Melo et al., 2012). Consequently, the real minimum wage grew from 700.04 reais in 2004 to 1180.41 reais in 2014. Due to the constitutional rule, the average value of social security benefits increased by more than 2 per cent annually on average. For rural workers' pensions, for example, the average growth rate was 5 per cent per year, while it reached 1.4 per cent for urban workers' pensions.

In addition, the rights to receive social security benefits in Brazil are fundamentally dependent on the participation of workers in the formal labour market, or, as stated by Silveira et al. (2020), remain "based on the tripod 'affiliation – contribution – benefit'" As labour informality fell more than 15 percentage points from 2002 to 2014 in all sectors and populational groups (Kerstenetzky and Machado, 2018), social security contributors increased more than 50 per cent in the same period. Although the literature has attributed the boom in the formal labour market to a combination of factors – economic growth, size of firms, job expansion in certain sectors and institutional measures (Corseuil; Moura; Ramos, 2011; Corseuil; Foguel, 2016; Kersteneztky and Machado, 2018; Saboia et al., 2021) – there is little controversy on the influence it had over income distribution. For example, Maurizio (2015) estimates that Brazil's formalization boom implied a 9 per cent fall in the Gini index. Also, Dweck et al. (2022) refuse the job polarization hypothesis and indicate that the fall in unemployment was accompanied by the reduction in income inequality in the formal labour market during the 2004-2013 period.

As suggested by Loureiro (2019, p.9), the minimum wage effect also benefited informal workers "through what is known as the 'lighthouse effect', as well as employees whose wages were indexed to (low) multiples of the minimum wage and thus got readjusted" (See also, Medeiros, 2015). Moreover, the two-sided effect of social security also implied a sharp increase

[7] Regarding social transfers in Brazil, Silveira et al. (2020) conclude that progressivity was higher in the *Bolsa Família*, a cash transfer that was created (as a unification of other programs) and expanded in Lula's government. It represented 14 per cent of the total income of the poorest income decile according to the POF 2017/2018. Another program marked by progressivity was the *Benefício de Prestação Continuada* (BPC), an income transfer at the value of one minimum wage to the elderly above 65 years old and disabled people that earn equal or less than 25 per cent of a minimum wage. Progressivity in social security benefits varied according to the different pension schemes. Regarding the *Regime Geral da Previdência Social* (RGPS) – the general pension scheme associated with private workers - it demonstrated almost a neutral effect (but still progressive), while the *Regime Próprio da Previdência Social* (RPPS) - which refers to public servants - has been quite regressive.

in the total amount paid by the unemployment insurance programme and in the number of its beneficiaries. The paradoxical increase in both formal employment and unemployment insurance beneficiaries was due to hiring and firing flexible rules associated with the dominance of open-ended contracts (Baltar et al., 2010). Nonetheless, Brito, Foguel and Kerstenetzky (2017, p.26) estimate that "considering all of the direct channels through which the minimum wage affected income distribution in these twenty years (1995-2014), the total contribution was 64.3 per cent, emphasizing the role of linking the minimum wage to the pension system, which accounted for more than half of that contribution".

The 2015-2016 recession and the following stagnant period contributed to a turnover in the effects of the minimum wage and formalization policies. The economic crisis led the unemployment rate back to 2004 levels in 2016. Although the private sector was the most affected by the loss of jobs, informality surged in all labour market positions (private and public sector, domestic and self-employed workers) (Baltar, 2020). As expected, the overall increase in informality implied a fall in the contributions to social security. In parallel, minimum wage real gains lasted until 2017, which contributed to avoiding increases in wage disparities among workers. Nevertheless, as informality went up, the consequences of the rising minimum wage pointed to exhaustion, as it tends to impact less non-formal, domestic, and self-employed workers (Saboia et al., 2021).

4 FISCAL POLICY DETERMINANTS IN BRAZIL FROM 2000 TO 2019

According to the last section, fiscal policy has been able to affect income distribution through two main channels – directly, by government expenditures, specifically monetary and non-monetary (health and education provisions) income transfers; and indirectly, as policies that promoted wage gains and formal employment increased the value and the amount paid in benefits. Probably due to the indirect mechanism, as subtly suggested by Serrano and Summa (2018, p. 177), the impact on labour bargaining power was not evident. The improvement in workers' income represented an "unexpected result of a mutually reinforcing interaction of a wide set of factors" which indicated the role played by the Brazilian state in the distributive conflict. Nevertheless, it still lacks for the literature to identify the way that these channels have been mobilized. Was the redistributive fiscal policy a result of a deliberate political agenda, or was it only possible because of economic growth? Did the institutional framework foster redistribution, or changes in institutions were necessary to produce the experienced effect?

This section attempts to address these queries by suggesting that the influence of the fiscal policy on the recent Brazilian distributive conflict can be better assessed as three types of determinants become explicit: i) the cyclical effect, which refers to the impact that domestic and international business cycles on the room for fiscal policy; ii) the institutional effect, which concerns the regulatory framework that conditions the management of the fiscal policy, either limiting or expanding its ability to favour or disfavour workers; and iii) the policy effect, or rather, the deliberate choices made by governments in office regarding tax and spending decisions, which tend to reflect specific economic agendas. Focusing on those elements, the following genealogy of fiscal policy management during the past two decades is based on a simple but functional periodization suggested by Orair and Gobetti (2017), which differentiates moments of expansionary (2005-2010; 2011-2014) and contractionary fiscal policy (2000-2004; 2015-2019).

The first period (2000-2004) started before Lula da Silva's electoral victory in 2002 but lasted until the middle of his first term. It represented a transitional moment between the Brazilian economy's stabilization in the 1990s and the cycle of growth and distribution in the early 2000s. It counted on a substantial institutional reform regarding macroeconomic policy that established the "macroeconomic tripod", a framework composed of the pursuit of inflation targets, restrained intervention in the exchange rate and the commitment to primary surpluses. The aim of the tripod was to substitute the exchange rate for the inflation target as the price stability anchor (Giambiagi, 2011). In this new arrangement, fiscal policy was supposed to lose importance for aggregate demand control, while monetary policy would assume the responsibility of sustaining long-term growth (Nassif; Feijó; Araújo, 2020). The commitment to primary surpluses was possible by a new regulatory framework for national, state, and local governments provided by the approval of the Fiscal Responsibility Law (*Lei de Responsabilidade Fiscal - LFR*) in 2000. The *LRF* limited discretionary decisions over the government budget, especially regarding personnel expenses and institutionalized the need to achieve a primary surplus target defined by the annual budget law (Giambiagi, 2011; Barbosa-Filho, 2018; Orair, 2021).

This period was particularly turbulent in terms of economic activity. According to Barbosa-Filho (2018), the Brazilian GDP grew around 3 per cent annually between 2000 and 2002, but inflation accelerated. Also, there was a combination of external vulnerability (low level of foreign exchange reserves), energy supply constraints, and instability regarding expectations in Lula's first presidential term (Serrano; Summa, 2012; Biancarelli, 2014; Barbosa-Filho, 2018). After taking office, Lula's administration had to deal with the turmoil. The chosen direction pointed to the reaffirmation of the tripod relevance (Orair; Gobetti, 2017), which implied the decision to promote a fiscal adjustment in the first two years of government. To Barbosa-Filho and Souza (2010, p. 3), the government had the intention to "signalize to financial agents the government's degree of commitment with fiscal equilibrium and, therefore, dissipate market concerns about possible explosive trajectories for the public debt", tightening monetary policy to confront inflation would also represent pressures over the national debt. As a result, primary surplus targets went from 3.75 per cent to 4.25 per cent of GDP between 2003 and 2006 (Arantes; Lopreato, 2017). It was possible firstly by a tax reform promoted in 2004, changing "the incidence of PIS-COFINS, from a cumulative sales tax to a partially cumulative partially value added tax" (Barbosa-Filho, 2008, p. 201; Werneck, 2006). Although it was supposed to have a neutral effect, the PIS-COFINS reformulation increased revenues from these contributions by 0.5 per cent of GDP. The government also managed to extend the validity of the *Contribuição Provisória Sobre Movimentação Financeira* (CPMF), a social contribution associated with financial transactions established in 1996. The CPMF's aliquot increased from 0.2 to 0.38 per cent (Brami-Celentano; Carvalho, 2007).

The second path was one of the expenditure cuts, which focused mainly on public employees' compensations, social benefits, and public investments (Barbosa-Filho, 2008; Orair; Gobetti, 2017). In 2003, the government ensured a reform aimed at reducing the fiscal impact of the social security system. The main changes referred to the public servant pension scheme (RPPS), seeking to reduce its differences with the RGPS (private workers' pension scheme). Moreover, a controversial measure referred to the adoption of a contribution rate of 11 per cent for already retired workers (Marques and Mendes, 2004; Nakahodo; Savoia, 2008; Marques et al., 2018).

In sum, the first two years of Lula's fiscal policy (2003-2004) dealt with the low growth rate, rising inflation and high public debt by reaffirming the fiscal institutional framework provided by the macroeconomic tripod and orienting the policy agenda towards spending cuts and tax increases (Biancarelli, 2014). The contractionary fiscal policy in the 2003-2004 period was praised by market segments and strongly criticized by the government's supporters (Paulani, 2003; Boito, 2003). However, these first years of contraction were not enough to characterize the first Lula government fiscal policy as austere. After 2004, the government compensated for the rising tax revenues with growing expenditures. The main driver of this process was the income transfers to households, which increased more than 1.5 per cent of the GDP. Hence, according to Barbosa-Filho (2008, p. 202), fiscal policy under Lula's first mandate (2003-2006) opted to prioritize a "social safety net rather than […] economic infrastructure".

The fiscal expansion period in Lula's administration went from 2005 to 2010. There is little controversy on the cyclical determinants of the rise in public expenditures during these years: from 2005 to 2008, the Brazilian economy experienced its most prolonged expansion phase since the 1980s, in which the output growth reached an annual average rate of 4.6 per cent (Martins; Rugitsky, 2021). While in the beginning, rising exports fuelled by favourable international conditions (such as the commodity price boom and the fall in interest rates) led to the boom, economic activity later relied on the increase in private consumption demand and public and private-induced investment. It was especially true after 2006 when the reorientation towards an expansionary fiscal policy began to positively affect aggregate demand (Serrano; Summa, 2012).

On one side, it is true that the expansionary fiscal policy was motivated by the cycle: the commodities boom and the rising trend in tax revenues allowed the government to increase expenditures without exerting pressure on domestic and external accounts. It was possible despite the primary surplus targets required by the LRF, as explained by Serrano and Summa (2012, p. 75): "if primary spending is increased, taxation is increased by the full amount of the initial increase in spending – or even somewhat more – the net effect on aggregate and income can still be positive". On the other, when the 2008 international financial crisis hit the Brazilian economy and forced growth of the real output down in 2009 (from 5 per cent in 2008 to -0.13 per cent), Lula's government opted for a countercyclical reaction and focused on reinforcing aggregate demand through a policy mix that relied on public spending increases (De Paula; Modenesi and Pires, 2015). Consequently, in 2010, the economy hit its highest annual real output growth rate for the whole 2000-2019 period (7.5 per cent).

There is room to consider that the policy decisions during Lula's government managed to take advantage of the business cycle and assure degrees of freedom concerning institutional constraints. For instance, the effort to reduce poverty relied mainly on the *Bolsa Familia*, an income transfer program that diminished inequality levels with relatively low costs (around 0.5 per cent of GDP between 2003 and 2013) (Campello; Neri, 2013). Second, the government acted in favour of labour movement demands by committing to the increase in the minimum wage, which institutionally constrained the private sector to increasing workers' remunerations. Due to the "lighthouse effect", the policy also benefited informal workers, and its effects added up with income transfers (Loureiro, 2019).

The minimum wage impact amplified as more Brazilians accessed the social security system. An important driver was the "second-best" formalization mechanism, which resulted from institutional changes in the regulation of domestic and self-employed labour (Kerstenetzky and Machado, 2018).[8] Rising household income implied room for increases in consumer demand, which was also fostered by the inclusion of several Brazilians in the banking system, opening space for household indebtedness (Dos Santos, 2013; Lavinas, 2017). Moreover, the rise in central government and state-owned companies' investment was assured not only by the reduction in primary surplus targets but also because the administration managed to approve a punctual change in budget laws that authorized the removal of capital expenditures from surplus requirements (Chernavsky; Dweck; Teixeira, 2020; Serrano; Summa, 2016).

The election of Dilma Rousseff inaugurated a new moment for the expansionary fiscal policy (2011-2014). In this period, not only the international economy was facing difficulties

[8] According to Kerstenetzky and Machado (2018, p.12), the "second-best formalization" implied access to social security benefits but without the assurance of labour rights through legal contracts. However, the main contribution to the formal employment boom originated from the "full-blown formalization", in which labour rights assure access to social security benefits.

that were previously absent, but macropolicy decisions in Brazil relied on different mechanisms than those employed until then. As for the international conditioners, the period was affected by the persistent effects of the 2008 financial crisis. The consequence was a contraction of the Brazilian external sector: exports increased only 2.9 per cent in 2011, contrasting with the 9.5 per cent growth in 2010. Despite the global economy retrenchment, international prices had recovered from the 2008 blow and increased consistently until mid-2011. This movement provoked inflationary pressures over Brazilian exported and imported products, even with a consistent appreciation of the Brazilian exchange rate. After 2011, the euro crisis and the deceleration of the Chinese economy contributed to international price stabilization but reinforced the retreat in external demand (Serrano; Summa; 2012; 2016; Paula; Modenesi; Pires, 2015; Barbosa-Filho, 2018).

This external context was relevant to the choices concerning fiscal policy. As the exceptional performance of the Brazilian economy in 2010 coincided with the inflationary pressures that originated from international prices, the newly elected government decided to engage in fiscal efforts to control aggregate demand and reduce inflation. According to Serrano and Summa (2015; 2016), the decision stemmed from a misconception about the origins of the inflationary pressures, which were understood as a result of an overheated economy, motivating the adoption of macroprudential measures (Cunha; Prates, 2012). Regardless of the government's interpretation, the fact was that "the primary fiscal surplus increased from 2.8 of GDP in December 2010 to 3.7 per cent in August 2011" (Paula; Modenesi; Pires, 2015, p.418). The government managed to conserve the high surplus level until mid-2012, as the eurozone crisis and the stabilization of international prices led Rousseff's administration to engage in countercyclical measures. Differently from 2009, however, it opted for a "pragmatic tactic of favouring fiscal stimuli that were supposed to put less pressure on inflation, such as tax cuts, or on the primary surplus, such as credit subsidies operated outside the budget" (Orair; Gobetti, 2017, p.8)[9]. The latter implied a change towards a tax-oriented fiscal policy. Mainly, it meant the provision of tax incentives to the private sector that aimed at the increase of competitiveness of the domestic industrial sector by compensating currency appreciation. It included a reduction in industrialized goods tax (IPI) and exemptions from payroll tax in some strategic sectors, which were later extended to the production of several goods and services (De Paula; Modenesi; Pires, 2015; Gentil; Herman, 2017).

In terms of the overall performance of the Brazilian economy, the chosen path did not manage to reproduce the dynamism of the previous administrations: between 2011 and 2014, the annual average real growth rate (2.35 per cent) was lower than those of Lula's first and second terms (3.5 and 4.6 per cent, respectively). The same was true for fiscal results. After 2011, the primary surplus became more and more reduced, and in 2014, Brazil reached a 0.3 per cent deficit, the worst primary result since 1999 (Gobetti, 2015). Some interpretations attribute these figures to fiscal policy misconduct. First, it was possible that the fiscal adjustment of 2011 might have been too rigid, as it stemmed from the erroneous interpretation that inflationary pressures were due to excesses in aggregate demand (Serrano; Summa, 2015; 2016). Serrano and Summa (2016, p.821) highlight that, in 2011, the high primary surplus target was obtained at the expense of public investments and, as a result, investments from "central government and state-owned companies in 2011[…] decreased 17.9 per cent and 7.8 per cent respectively".

[9] As suggested by various interpretations, the commitment to higher levels of fiscal surplus also derived from a government's particular view on the adequate macroeconomic path to foster higher growth rates. Since the economy had been "relying too much on household consumption and […] private investments were constrained by the overvalued currency and high interest rates" (Orair; Gobetti, 2017, p.7), easing monetary policy was the chosen measure for investment to take off, but it would only be possible with a fall in aggregate demand and fiscal rearrangement.

Second, the government response to the 2012 eurozone crisis might have come too late and not been strong enough (De Paula; Modenesi; Pires, 2015). Third, the preference for a tax-oriented expansionary fiscal policy did not produce the expected effect on private investment, and the fall in revenues contributed to pressures over the national budget (Orair; Gobetti, 2017). Last but not least, the primary result targets were excessively high and forced the government to engage in non-conventional accounting practices that employed operations with public companies (Petrobrás) and state-owned banks (BNDES) resources – the so-called *pedaladas fiscais*. Badly communicated, these accounting practices increased the mistrust among private agents regarding the government's real ability to meet its own fiscal commitments (Orair; Gobetti, 2017; Barbosa-Filho, 2018).

Nevertheless, it would be inaccurate to assume that Rousseff's fiscal policy in the 2011-2014 period had divorced itself from Lula's distributive aim via social benefits and public service provisions[10]. Chernavsky, Dweck and Teixeira (2020) show that the worsening of the fiscal result that followed 2011 was mainly led by the fall in revenues, as primary expenditures remained stable as a share of GDP despite the lower growth rates in main spending categories. Specifically, the government increased spending on social benefits, health, and education. Public investment remained stable but was kept at a historically high level if compared to prior decades. As done by Lula's administration, Rousseff's government also employed the available institutional mechanisms to remove investments from the primary surplus calculation. In addition, the minimum wage policy was maintained (despite the negligible increase from 2010 to 2011), and formal employment continued to rise, although presenting lower rates in the 2013-2014 period (Serrano; Summa, 2016; Gentil; Hermann, 2017).

Therefore, the contribution of fiscal policy to the intertwined economic and budgetary deterioration that began in 2014 can be interpreted in a more contingent way. On the expenditure side, as remembered by Gobetti (2015), one should recognize that Lula's eight-year administrations produced structural changes in the size of government spending. Investments in infrastructure (in public education and health facilities, for example) implied the existence of perennial brand-new maintenance costs to the public sector. Also, fostering formal jobs and raising minimum wage meant that social security costs would inevitably increase, following the rules of the Constitution.

Moreover, the 2011-2014 period showed signs of exhaustion of the mechanisms employed to sustain the aggregate demand growth during the two mandates of Lula. Rezende (2016), for instance, demonstrated that levels of indebtedness of non-financial companies in Brazil began to grow after the 2008 financial crisis and reached critical values in 2013. The end of a debt cycle is also indicated for the household sector, as the ratio that expresses the annual compromise of households' income with indebtedness (excluding habitation credit) recorded 27 per cent at the end of 2011 and remained stable until 2013. It implied limitations to new rounds of consumption-led growth and might have contributed to changes in accumulation as it altered the redistributive effect of interest payments (Garber et al., 2019; Marques and Rugitsky, 2020). The slowdown in the formalization boom also meant a reduction in the growth of social security contributions, and as the economic crisis began to affect the labour market in 2015, the return to higher levels of informality amplified the effect of this decrease (Baltar, 2020).

[10] Some authors contest this interpretation by arguing that, regardless of the size of fiscal policy, Rousseff's administration was responsible for deepening the process of commodification of Brazilian public services. For these critics, this had been a characteristic of the whole Worker's Party administration, noticeable not only by the number of incentives given to health and education private institutions but also by the option for a consumption-led growth strategy fundamentally associated with the rise of household indebtedness. Some suggest that, in the end, the almost 14-year administration of the Workers' Party did not contest neoliberalism. See, for example, Lavinas (2017), Gentil and Hermann (2017), Saad-Filho and Loureiro (2019), Loureiro (2019).

Therefore, the 2011-2014 fiscal policy was conditioned to a very different economic juncture compared to the previous period, both domestically and externally. In this case, interpretations pointed to the cyclical downturn and Rousseff's fiscal policy misguidance as the causes of the fall in average growth rates. It is a fact, however, that the deceleration was central to forcing tax revenues down and amplifying the deterioration of the primary result. In parallel, the rising trend in expenditures meant a long-standing cost to the national budget, and fiscal deterioration partially originated from the institutional mechanisms that contributed to the growth and distribution boom of the previous period.

The last fiscal policy period (2015-2019) included three different governments – the unfinished second term of Dilma Rousseff (2015-2016), which was interrupted by a legislative coup; the improvised mandate of former vice-president Michel Temer (2016-2017), and the beginning of the far-right administration of Jair Bolsonaro (2019 -). Rousseff was re-elected in 2014 amid rising social discontentment and opted to reorient fiscal policy to regain market confidence[11]. In 2015, the government was engaged in a large fiscal adjustment focused on controlling the Brazilian public debt ratio trajectory. It cut expenditures in investments and subsidies and increased taxes on financial revenues, some industrial goods, and exports. Moreover, it proposed alterations in the 1990 legislation on the payment of unemployment benefits by extending the minimum time requirements for unemployed workers. Finally, the government rapidly removed the price controls on fuels previously adopted. Severely executed, the fiscal consolidation did not manage to restore primary surpluses and contributed to an exchange rate depreciation. Combined with the release of price controls, this was also responsible for the increase in inflation, which fostered a contractionary monetary response (Arestis et al., 2021). Therefore, the 2015-2016 period was strongly recessive (the real GDP growth rate hit -3.55 per cent in 2015 and -3.28 per cent in 2016). The unemployment rate surged in 2016, primarily affecting formal employees of the private sector. As a result, self-employed and domestic workers increased during the period. These categories, however, increased with rising levels of formal employment (Saboia et al., 2021; Baltar, 2020).

In August 2016, Rousseff's mandate was interrupted, and vice-president Michel Temer assumed the government. In terms of the policy agenda, little has changed regarding the effort on fiscal consolidation, and neither had the Brazilian economy demonstrated signs of a virtuous recovery. The 2017-2019 period presented an annual average real GDP growth rate of 1.44 per cent. Furthermore, the labour market has shown signs of recovery but mainly manifested among self-employed and domestic workers. Formal employment in the private sector continued the falling trend of the previous period, although at less sharp rates. Hence, rising informality was the footprint of the smooth recovery in the labour market (Baltar, 2020). Regarding the real minimum wage, the valorisation trajectory oscillated in the recession but was interrupted after 2017.

Nevertheless, the most significant effects in the fiscal policy from 2017 to 2019 came from shifts in the underlying institutional framework, which fundamentally reorganized as the Workers' Party left the government. A few months before the removal of Dilma Rousseff, vice-president Michel Temer's party published a document entitled *"Bridge to the Future"*, in which it anticipated the path to be pursued after the impeachment. The document stated that the fiscal crisis was "the most important obstacle to the restoration of economic growth" and affirmed that the Brazilian fiscal problem could not be solved "even if we changed the way of governing", suggesting that the only way to fix it would be to "change laws and even constitutional norms, without which the fiscal crisis will always come back" (p. 5-6).

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[11] In June 2013, Rousseff government faced a politically destabilizing moment as millions of Brazilians engaged in protests that were initially oriented towards the rise in transit fares and the cost of public transportation (See Purdy, 2019).

Indeed, the short-lasting and unpopular Temer administration (August 2016-2018) managed to approve two fundamental reforms that structurally affected fiscal policy. First, in 2016, it introduced the largest change in Brazilian fiscal legislation since the adoption of the LRF. The so-called New Fiscal Regime (NFR), instituted via constitutional amendment, established an expenditure rule that limits real spending growth from 2017 to 2037. This strict mechanism (which did not find similar in other economies) predicted that the central government's primary expenses were allowed to grow only according to the inflation rate of the former year (Dweck et al., 2021; Arestis et al., 2021). As argued by some specialists, it was a matter of time before the expenditure rule proposed to reach its limits, as a large part of the Brazilian expenditures (public health and education, for example) are constitutionally determined as specific shares of the national budget (Rossi; Dweck, 2016; Rossi et al., 2019). Indeed, the recent debate has demonstrated convergence towards the need to reconsider the format of the expenditure role imposed by the LRF among economists from quite different approaches[12].

Following the agenda defined in the *"Bridge to the Future"*, Temer's administration also reviewed Brazilian labour legislation, approving the most significant reform in labour laws since the 1940s. Law 13,467/2017 focused on rearranging the labour market of salaried urban workers employed in the private sector. In theory, it envisioned the creation of new jobs, the concomitant reduction in informality and subtilization of the labour force, falling labour costs and conflicts (Campos, 2017). However, to fulfil these commitments, it proposed new forms of labour contracts or the modification of some that already existed. In short, the reform authorized the division of working day and intermittent contracts, amplified the possibility of subcontracting workers, favoured individual negotiation vis-à-vis collective bargaining and previewed the reduction of the benefits paid in case of contract extinction. It also removed the mandatory contribution to unions and extinguished the need for the judiciary to monitor contract terminations, leaving the burden of eventual legal costs to the individual worker. Campos (2017) stresses that the emphasis on subcontracting potentially implies an increase in wage disparities, as subcontracted workers tend to earn considerably less. As discussed in Carvalho (2017), intermittent and temporary contracts liberate the labour force to work on demand and to several employers, which tend to favour informal relations. Besides, the further demobilization of the union movement appeared as a future consequence, as the law did not offer alternatives to the end of mandatory contributions[13]. Finally, the removal of the legal support to workers suggested a growing distance of the state apparatus from the possible conflictive dynamics between capital and labour, relegating its action to guaranteeing the legal-formal aspect of relations (Carvalho, 2017; Campos, 2017; Passos; Silveira; Waltenberg, 2020).

Finally, at the end of 2016, the Temer government also proposed a reform in the Brazilian pension system. Although rejected by the National Congress in 2018, the proposal pointed to a consistent alteration in the social security scheme consolidated since the 1988 Constitution. One of the main changes concerned the removal of the right to retire based only on the time of contribution, which had its minimum reduced from 35 to 25 years but combined with a minimum age criterion – the same 65 years old for all categories (men and woman, rural and urban workers, public servants, and private workers). Another significant alteration was the elimination of the link of some benefits to the minimum wage value, such as the BPC (see note 2) and sick pay benefits. Regarding the BPC, it also proposed to increase the age requirement

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[12] This topic has gained importance, for instance, as fiscal measures were necessary to confront the Covid-19 pandemic. See, for instance: https://www.ft.com/content/638ae6a7-f0b0-469f-8eae-5c50149d4e6e

[13] A recent empirical evaluation of the effects produced by labour reform points to its inability to generate the expected changes in the labour market. By applying a synthetic control method, Serra, Bottega and Sanches (2022) did not find statistical relevance in the impact of the 2017 labour reform on the unemployment rate.

from 65 to 70 years and remove regular price readjustments according to inflation (Nery, 2016; Giambiagi; Pinto and Rothmuller, 2018).

The election of Bolsonaro in 2019 created new momentum for pension system reform. In March 2019, during a speech for industry leaders in São Paulo, vice-president General Hamilton Mourão gave the tone of the government policy agenda: the need for structural reforms. He stated that it was time for Brazil to get rid of some "sacred cows" (real valorisation of the minimum wage and the minimum age requirements for the BPC) by "reviewing the social contract established by the 1988 Constitution", even if it meant to "face unpopular measures"[14]. According to Fagnani (2021, p.31), this was precisely the tone of the Constitutional Amendment Proposal n.6/2019, as it sought to review the constitutional status of social security rights by introducing "transitory guidelines" that presupposed further government regulation via complementary laws, more susceptible to political bias.

In its original version, Bolsonaro's pension reform advocated for consistent changes, such as the introduction of funded schemes, the suspension of the mandatory inflation readjustments in pension benefits, the end of differentiation between rural and urban pension schemes, the possibility to reconsider (with no limit) the minimum age requirements as the demographic indicators change, and the potential reduction of the government contributions to social security, essentially relegating them to employers and employees. In addition, the proposal suggested to reconsider the minimum wage as the baseline of benefits such as the BPC, pension for death, and the *abono salarial*[15]. Despite not being totally approved by Congress, the reform assured the end of the right to retire by the time of contribution, the increase of minimum age requirement to 65 years for men and 62 for women and, most importantly, the removal of the constitutional status for the pension system rules, which became subject to complementary laws (DIEESE, 2019; Saad-Filho, 2020; Fagnani, 2021).

5 ESTIMATING THE NET SOCIAL WAGE FOR BRAZIL (2000-2019): METHOD, DATA AND RESULTS

As previously stated, the net social wage consists of the government's fiscal policy net result concerning the provisions for the working class. Following the literature discussed in Section 2, it is possible to estimate the net social wage by deducting the total tax revenues paid by workers (T) from total government expenditures that benefit them (E):

$$NSW = E - T \qquad (1)$$

Before having this equation discussed in detail, some considerations deserve attention. First, following the social wage literature, the working class represents the sum of individuals that receive remuneration from selling their labour force, which means that they do not have "the ownership of capital as a principal income source", being receivers of wages, salaries, and pensions mainly (Shaikh; Tonak, 2000, p. 248; Maniatis; Passas, 2018). Despite its obvious link with the Marxian theory, this definition is operational and stems from the division of national income between labour and capital. It entails that the social wage literature keeps the understanding of the working class away from more theoretical debates on the particularities of social classes and social relations.

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[14] The vice-president's discourse is resumed at the following article: https://gauchazh.clicrbs.com.br/economia/noticia/2019/03/mourao-chama-reajuste-do-minimo-pela-inflacao-e-bpc-de-vacas-sagradas-cjtqeaolr011h01prul2obqo8.html

[15] The *abono salarial* is a salary allowance guaranteed to workers who receive an average of up to two minimum wages monthly. The payment is offered by employees that are hired by contributors of PIS or PASEP. The maximum value for the *abono salarial* is one minimum wage.

Even so, this definition of working class serves the purposes of the estimation: as a mechanism capable of intervening in distribution, the fiscal policy can affect the position occupied by the labour force in the class conflict by changing the costs of its reproduction (Bowles; Gintis, 1982; Shaikh; Tonak, 1987). Following this, a rising net social wage implies that growing state provisions are increasingly absorbing the reproductive costs of labour. Consequently, workers rely less on the income obtained via labour market to bear these costs. Therefore, the main point of the net social wage *estimation concerns the identification of whether fiscal policy net result is redistributive in a pro-labour way, referring "*not only to the share of the tax burden or government transfer to the capitalist class, but also the states' own absorption of tax revenues for defraying costs of social reproduction as well*" (Shaikh; Tonak, 1987).*

Second, the estimation method for the net social wage presented in Tonak (1984) became the place of departure for other authors' calculations, but some methodological divergences have arisen (Reveley, 2006; Maniatis, 2014; Moos, 2019). For the purposes of the present work, one must be aware that these divergences are not irrelevant: a simple alteration concerning data or definitions can modify the conclusions on the role played by fiscal policy in mediating distributive conflict. For instance, a positive and a negative net social wage represent quite different situations – while the former suggests that the fiscal policy benefits the working class, the latter indicates the exact opposite. Following already existent estimations of the net social wage in developed economies, it is not uncommon for expenditures and taxes to move side-by-side, which produces a near-zero net social wage. Thus, results must be cautiously interpreted, despite the risk of understating the redistributive meaning that arises from a positive or a negative net social wage. Nonetheless, a more reasonable analytical utilization of the net social wage estimation focuses not specifically on its positive or negative signal but on its trend during a period, as well as on the behaviour of its components (Moos, 2019).

Another methodological challenge involves the identification of which expenditures and taxes are associated with the working class. In general, the literature consents that government spending must be expressed by function and separated by its role in the social reproduction of workers and capitalists (Tonak, 1987; Maniatis; Passas, 2018). Regarding workers, the net social wage expenditures include all functions that "directly support labour income or consumption" (Tonak, 1987, p. 58), which excludes not only the direct provision to capital accumulation (such as subsidies or credit on agriculture and industry) but also that type of spending focused on sustaining capitalist institutional and political structure. This last group includes functions such as the administrative costs with the legislative, executive, and judicial powers; international affairs, defence, and national security (Tonak, 1984; Shaikh; Tonak, 1987, 2000)[16].

By excluding these non-labour-associated categories, total net social wage expenditures (E) are split into two components. The first, E_1 , aggregates all spending categories that affect labour income straightforwardly. It refers mostly to monetary transfers associated with pension benefits, social assistance services, unemployment insurance, and other income categories originally associated with the history of labour struggle. The second, E_2, refers to expenditures that originate from collective consumption. E_2 is mostly constituted by the so-called non-monetary transfers (public health, public education) and other fundamental categories to social reproduction (energy, public transportation, sewage systems, etc.). The net social wage literature does not consider that these expenditures are entirely provided to workers and proposes that their participation in labour income should be proportional to the share of wages

[16] Regarding the Brazilian case, the government expenditure functions that are non-labour functions are Legislative Power, Judicial Power, Essential to Justice, Administration, National Defence, Public Security, External Affairs, Industry, Trade and Services, and Special Charges. Tonak (1984) and Maniatis and Passas (2018) discuss the reasons for not considering them.

and salaries in total income (WS). Therefore, total labour-associated expenditures are defined as a share of total expenditures in these categories (E_2^*):

$$E = E_1 + E_2 \text{, being } E_2 = E_2^* * WS \qquad (2)$$

The same logic is extended to identify tax categories that are incident on labour and non-labour income. Excluding all categories that are directly incident on capital income (corporate tax, tax on capital gains, inheritance tax, fortune tax, etc.), tax revenues originating from labour income are divided into three components. First, T_1 refers to revenues from the direct taxation of workers[17]. They correspond to the contributions to social security and other social and economic contributions that are paid both employers and employees. As pointed out by Tonak (1984, p.55), "both parts constitute a portion of the cost of labour to the employer […] as part of wage bill, i.e., as part of nominal variable capital". Contributions, therefore, are deducted from labour income, regardless of whether who pays them is the capitalist or the working class (Shaikh; Tonak, 1987)[18]. Second, T_2^* corresponds to other direct tax revenues, which burden is shared by the whole population. The main example is the personal income tax. Following the same steps presented for social wage expenditures, T_2 is obtained from the multiplication of T_2^* by the wage income share.

Finally, IT^*corresponds to revenues originating from indirect taxation or taxes over consumption. There is a debate on how to estimate the share of indirect taxation that affects workers, since it impacts distribution not only via changes in post-tax income, but also through price channels, which are more complicated to identify and estimate (Moos, 2019). Shaikh and Tonak (1987; 2000), for instance, do not consider indirect taxation in their estimation as they argue that the embedded endogeneity of consumption taxes precludes reasonable conclusions on their distribute effects. Other authors, however, understate the price effects over the distribution and opt to include a share of indirect tax revenue that is proportional to the wage share of income (Sepehri and Cristomas, 1992; Akram-Lodhi, 1996; Maniatis, 2014; Moos, 2019) [19]. Moos and Qi (2022, p. 6) state that "whether or not multiplying T_3 [IT, in this case] by the labour share is an appropriate method for imputing labour's share of indirect taxes remain unanswered", but stress that indirect taxes are subject to the dispute between capital and labour over the share of national income, which affect price dynamics. Consequently, there would be a plausible economic reason to justify the use of the wage share of income, as the following:

$$T = T_1 + T_2 + IT, \text{in which } T_2 = T_2^* * WS \text{ and } IT = IT^* * WS \qquad (3)$$

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[17] *Tax revenue originated from on labour income (T1)* are composed by the sum of social security contributions, payroll taxes and withholding income tax (from employee compensations). Data from the consolidation of public accounts only provides an aggregated value for the social contributions. Therefore, for the calculation of T1, social contributions are deducted from three components: i) *Contribuição Social sobre o Lucro Líquido* (*CSLL)*, which is incident on profits, ii) *PIS/PASEP,* which are incident on firms operating income, and iii) COFINS, which has the same incidence. Both *PIS/PASEP* and *COFINS* contributions are said to affect consumers, being incorporated in *IT.* The share of these three deducted components in social contributions is calculated according to data provided in Pires (2021). Also, BSPN does not offer a disaggregation of income tax data for the whole period. In this case, the share of withholding income tax incident on employees' compensation (IRRF-T) in total income tax is calculated from Brazilian Treasury data. In the end, T1 = social contributions - *CSLL - PIS/PASEP – COFINS* +IRRF-T.

[18] Other approaches adopt the same methodological choice regarding social and economic contributions. See, for example, Morgan's (2017) effort on constructing the Distributive National Accounts (DINA) for Brazil.

[19] Reveley (2006) adopts an unusual adaptation that considers indirect tax revenues proportionally to the ratio between employee's compensations and total consumption in the economy.

Presented the particularities of the net social wage equation, a few remarks on the available data for Brazil are necessary. Despite the existence of more than one source of Brazilian fiscal data that allows the disaggregation of expenditures and taxes, none is perfectly adaptable to the net social wage estimation method[20]. Regarding the purposes of this article, the most suitable source consists of the consolidation of public sector accounts, or *Balanço Nacional do Setor Público* (*BSPN*), publicized by the Brazilian National Treasury. The BSPN contains annual data on expenditures by function and taxes by category for the 2000-2019 period, considering local, state, and national government. The wage share of income is obtained from the Brazilian National Accounts for the whole period and reflects the method proposed by Gollin (2002) and replicated for Brazil in Martins and Rugitsky (2021) and Marques and Rugitsky (2020), in which the wage share includes, besides employees' compensation, a parcel of the mixed income.

Some caveats concerning BSPN data deserve attention. First, as it depends on information sent by local and state administrations, discrepancies may arise as the information flow varies depending on the year. Second, the consolidation of public sector accounts experienced methodological changes after 2012 that demand adaptations to adequate data from the 2000-2012 period and the 2013-2019 period. In the latter, for instance, income tax revenues are divided between personal and corporate categories, a differentiation that does not occur in the former. Consequently, it complicates the precise identification of capital and labour contributions to income tax revenues. This issue is tackled by resorting to the proportions of income tax categories provided by Treasury data. In addition, the 2013 BSPN edition only disaggregates tax revenues into a few categories. The solution was to fill the missing data by using an average between the 2012 and 2014 representative shares of each tax category.

Finally, there is a caveat regarding local and state fiscal results. As stated, the net social wage expresses the degree of the state intervention in distributive conflict. Following this, the more adequate would be to consider the fiscal result of the general government (which includes local, state, and national spheres), understanding it as an expression of the whole state apparatus. On the one hand, this could be problematic to the interpretation of the redistributive role of fiscal policy since the estimation would refer not only to the central government but also reflect regional circumstances. On the other hand, renouncing the general government approach would not only generate a theoretical inconsistency concerning the importance of the state apparatus but also underestimate the impact of indirect taxes, which in Brazil fundamentally compose local and state budgets[21]. Considering that this bias would be more significant to the estimation, this analysis focuses on the Brazilian general government or consolidated public sector. Table 1 resumes the expenditures and tax categories used to estimate the net social wage for Brazil.

Table 1. Net social wage components and correspondents in Brazil BSPN data

Component	Meaning	BSPN correspondents
E_1	Government spending entirely directed to workers	Social Security, Social Assistance, Citizen Rights, Housing, Work, Agrarian Organization.

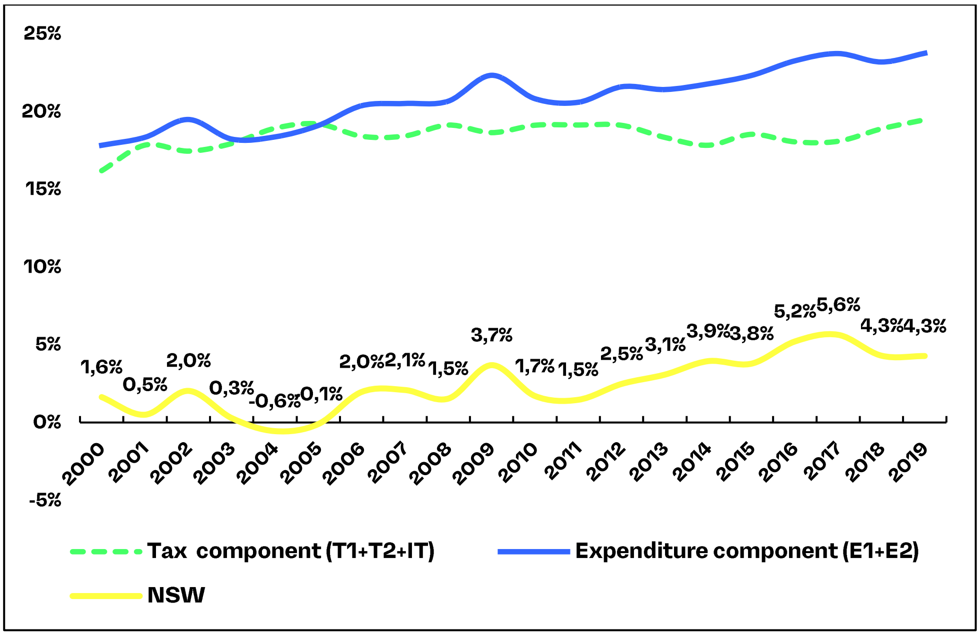
[20] The sources present advantages and disadvantages regarding the available period, information details, international comparison and scope of government (local, state and national). Some of the sources used in alternative scenarios were the *Classificação das Funções do Governo (COFOG)* and the *Resultado do Tesouro Nacional (RTN)*.

[21] An advantage, according to Orair and Gobetti (2010), is that tax collection in Brazil has concentrated in the central government, despite some recent trends pointing to the opposite way.

E_2	Government spending partially directed to workers	Education, Health, Culture and Leisure, Environment, Transportation, Energy, Communications, Sewage and Urban Affairs, Science and Technology
T_1	Taxes collected from labour income	Social and economic contributions and withholding income tax incident on employees' compensation
T_2^*	Taxes partially collected from labour income	Personal income tax, Urban property tax, Rural property tax, Motor Vehicle tax
IT^*	Indirect taxes	Import taxes, taxes on services, taxes on industrialized products, taxes on the circulation of good and services, taxes on banking operations and contributions that affect consumers

The following paragraphs present the main results for the net social wage for Brazil between 2000 and 2019. However, one must be aware that interpreting the nuances of the Brazilian state redistributive role by analysing the net social wage estimation is not a simple task. As previously discussed, changes in revenues and spending paths are not only subject to cyclical movements in the domestic and international economy but conditioned to the institutional framework and deliberate policy choices.

Graph 1. Net social wage and its components as shares of GDP (2000-2019)



Graph 1 presents the trajectories of the net social wage ratio (net social wage as a share of GDP and, from now on, NSW) and its two components ratio (expenditure and tax revenues as shares of GDP). The first relevant feature in Graph 1 refers to the gradual increase in the NSW from 2005 to 2017, years that indicate both its lowest (- 0.6 per cent) and highest (5.6 per cent) mark[22]. Another noteworthy remark is that this rise in the NSW was more prominent in two periods: from 2005 to 2009 and from 2013 to 2017. In addition, Graph 1 shows that the elevation in the NSW is predominantly owed to the expenditure component. From 2000 to 2019,

[22] The net social wage for Brazil converges with recent estimations for other countries, which indicate a growing positive value. Nevertheless, as discussed in the next section, the underlying reasons might differ (Maniatis e Passas, 2018; Moos, 2019; Moos e Qi, 2022; Fazeli; Fazeli e Shaikh, 2019; 2019a).

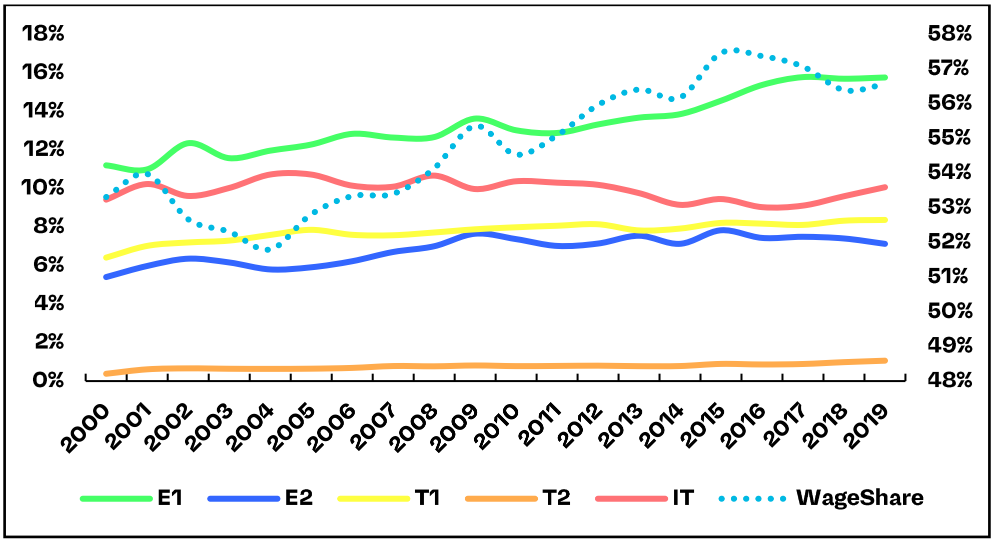
it went from 16.6 per cent to 22.9 per cent of the GDP. In contrast, the tax component demonstrated stability during the NSW increasing period, although it oscillated upwardly in the 2000-2004 period and downwardly from 2012 to 2014.

Graph 1 also indicates some preliminary conclusions on the redistributive role played by the fiscal policy in Brazil. First, the upward trend of the net social wage and its relative increase as a share of GDP started in 2004 converges with the argument that fiscal policy has become increasingly pro-labour-oriented during the past two decades. Nevertheless, the trajectory of the net social wage and its size as a share of GDP had not fallen until 2018. This happened even with the reversion towards austerity that occurred three years before. When the NSW finally reverted its trajectory, the fall in the 2018-2019 period was not large enough to lead it back to pre-crisis levels. Moreover, the decrease was more due to the tax component recovery than to the expenditure component contraction. In conclusion, one might suppose that the growth in pro-labour government expenditures had roots in more structural factors than those controlled by changes in fiscal policy.

Third, as stated by the literature, the NSW is expected to behave as a countercyclical variable (Shaikh; Tonak, 1987; Moos, 2019). When the economy is booming, the decline in unemployment is likely to reduce the burden of the reproduction of the working force that falls on the state (it pushes down the costs with unemployment insurance, for instance). This relief in the spending side is accompanied by an improvement in tax revenues, forcing a two-way drop in the net social wage. During crises, however, unemployment surges while fiscal space contracts by the fall in tax revenues. In this case, workers' demand for state provisions increases and the NSW tends to rise due to institutional mechanisms that assure the state's responsibility over the reproduction of the working class (by reacting to the automatic stabilizers, for example). Nevertheless, from 2000 to 2019, the Brazilian NSW trajectory did not conform with the countercyclical hypothesis. For example, considering the two most significant periods of increase in the NSW, this divergence becomes evident: a rising NSW occurred in both the 2005-2009 economic boom and the 2013-2017 downturn.

Combined with the resilience of the expenditure component and the late and slow reversion of the NSW trend after the 2015 crisis, the alternate relation of the NSW with the business cycle suggests that the expansion of the redistributive role of the Brazilian state cannot be explained only by changes in policy or oscillations in economic activity. Following the discussion in Sections 3 and 4, Graph 2 indicates that part of the net social wage upward trend relied on the role played by the institutional determinants. For the 2000-2019 period, social spending directed to workers as a share of GDP (E1) was the NSW component that presented the most substantial expansion. Its consistent upward move contrasted with other components' behaviour, which had a more irregular trajectory. As expressed in Table B (Annex I), the persistent rise in E1 derives from the increase of its three main spending functions as shares of GDP: "Social Security", "Social Assistance" and "Work". They represented, respectively, 81.1 per cent, 9.1 per cent, and 6.8 per cent on average of total government resources directly spent with workers from 2000 to 2019. These categories express expenditures allocated to pension benefits, income transfer programmes such as the *Bolsa Família*, unemployment insurance and other related benefits guaranteed by formal employment.

Graph 2. NSW tax and expenditure subcomponents as shares of GDP (2000-2019)



It is noteworthy that E1 began to increase before the wage share initiated its valorisation trajectory. Also, the rising trend in E1 was only exhausted three years after the critical moment of the profit squeeze in 2014 (Martins and Rugitsky, 2021). As discussed in the next section, these preliminary conclusions help characterise the role played by state redistribution in the intensification of the Brazilian class conflict. The net social wage trajectory reinforces the interpretation that the redistributive orientation of fiscal policy was a central target of the capitalist reaction after 2014 (Serrano; Summa, 2016; Dweck; Teixeira, 2017).

6 THE NSW AND THE POLITICAL ECONOMY OF STATE REDISTRIBUTION IN BRAZIL (2000-2019)

The upward trend in the net social wage for Brazil (2005-2017) coincided with most of the period that the Workers' Party was in the government (2003-2016). As previously stated, these administrations became widely acknowledged for reducing poverty and inequality in Brazil by expanding access to distributive social policies. Literature also consents to the favourable external and domestic economic conditions that allowed this process, which resulted, especially from 2004 to 2011, in the reduction of unemployment levels and consistent output growth. In that context, the intervention of the Brazilian state in the distributive conflict was at least manifested via two mechanisms: first, by a direct mediation of workers' income via cash transfers and, second, by an indirect interference entailed by the legal and institutional framework that affected labour market – mainly, the incentives to formal employment and the minimum wage valorisation policy.

Still, there is some criticism of the exact redistributive role played by the Brazilian state during the Workers' Party government. It stems from the fact that the reduction of poverty and inequality has occurred alongside the financialization of social policy, the commodification of health and educational provisions, and the increasing reliance on household indebtedness (Sestelo et al., 2017; Lavinas, 2017; Lavinas; Gentil, 2018; Loureiro, 2019). Therefore, Lavinas (2017, p.57) has a point in affirming that "it less clear how redistribution and growth were integrated […] in terms of tax and fiscal policy and the social protection system per se [...]". Indeed, despite the empirical evidence on the workers' income improvement, the caveats are not irrelevant. Looking at the personal income distribution, Medeiros, Souza and Castro (2015), for instance, indicate that the inequality level did not fall as imagined mainly because of the income concentration on the top 1 per cent. As for the functional income distribution, Marques and Rugistky (2020) suggest that the rising wage share trajectory is transformed into a falling series when interest payments are deducted from household income.

Although one must not undermine the importance of counterbalancing forces on state redistributive orientation, there is no reason to suppose that the rising trend in the net social wage for Brazil shared the same determinants that, according to Moos (2020), led to a similar move in the US economy. Instead of representing "the result of cyclical and structural threats to social reproduction, including prolonged joblessness, high healthcare costs, and degradation" (Moos, 2020, p. 21), the redistributive fiscal policy during the Workers' Party governments does not indicate "a set of residual interventions, obedient to neoliberal precepts of market precedence and of social safety nets" (Kerstenetzky, 2017, p.31). On the contrary, it could be interpreted (at least regarding the expenditure side) as an attempt to reach the pro-redistributive potential of the Federal Constitution of 1988, which had not matured until then (Kerstenetzky, 2017; Arrecthe, 2018).

The net social wage for Brazil in the past two decades illustrates the relative triumph of this attempt but also suggests that its limits relied on the intensification of the class conflict. The following discussion expresses the contradictions of the pro-redistribution process in the light of the net social wage trajectory and divides it into five phases: the preparatory phase (2000-2004), the structuring phase (2005-2009), the consolidation phase (2010-2014), the exhaustion phase (2015-2017) and the dissolution phase (2018-2019).

Table 2. Phases of the pro-redistribution attempt

	Preparatory phase (2000-2004)	**Structuring phase (2005-2009)**	**Consolidation phase (2010-2014)**	**Exhaustion phase (2015-2017)**	**Dissolution phase (2018-2019)**
Net social wage ratio (as share of GDP)	-0,13	0,73	1,87	4,83	3,79
Wage share	52,81	53,80	55,63	57,30	56,47
Real Minimum Wage (average growth rate)	4,01	7,47	3,40	1,69	-0,10
Formal employment (average growth rate)	4,41	6,02	4,35	-2,45	1,60
Real GDP (average growth rate)	3,15	3,64	3,38	-1,84	1,50

The *preparatory phase* (2000-2004) coincided with a relatively stagnant period of the Brazilian economy. As detailed in Section 4, it was an inflationary and politically turbulent period with changes in the fiscal policy institutional arrangement. The preparatory phase also coincided with the first two years of Lula's government, which, in terms of fiscal policy, was characterized by primary surpluses of 2.27 per cent of GDP in 2003 and 2.69 in 2004 (Table A – Annex I). As Graph 1 shows, the fiscal adjustment in the first Lula government affected redistribution. The NSW fell sharply from 2002 to 2004 due to a faster rise in the tax component caused by the increase in IT and T1 shares (Graph 2). Thus, in 2004, the NSW reached its lowest level for the 2000-2019 period (-1.18 per cent)[23]. According to BSPN data, tax revenue

[23] Following Maniatis and Passas (2018, p. 7), "the sign of the net social wage in each year denotes the positive or negative contribution of the state to the standard of living of the average worker". Nonetheless, one should not overestimate the negative results for Brazil: in 2000 and 2003, for example, the NSW was in a near-zero zone,

from social security contributions (which represent the most significant category in T1) and PIS/COFINS/PASEP (the main component in IT) increased considerably in the period, indicating that reforms discussed in Section 4 were successful in improving government fiscal space. Therefore, the falling NSW suggests that fiscal efforts employed to assure elevated primary results were indeed incident on labour income, supporting the criticism against the fact that Lula's adjustment reinforced the regressive tax system (Paulani, 2003; Brami-Celentano; Carvalho, 2007).

In addition, the fiscal adjustment affected the expenditure component of the NSW. While both E1 and E2 shares increased from 2000 to 2002, the 2003-2004 period was characterized by a timid elevation in social spending (E1 share) and a sharp decrease in collective consumption (E2 share), forcing the expenditure component down. As argued in Barbosa-Filho (2008), the expansion of the social safety net in the first years of Lula's government was priority, contrary to the collective consumption, which contracted as a share of GDP (E2) and in absolute values. However, the increase in E1 share was not higher than 0.5 percentage points, suggesting that primary surplus targets were actually the main focus. Even so, the reformulation of social assistance around the *Bolsa Familia* was central to changing the composition of social assistance spending: this category went from 4.1 to 8.1 per cent of total E1 expenditures in the 2000-2004 period (from 0.5 per cent to 1 per cent of Brazil's GDP). Finally, it is noteworthy the expansion at higher rates of expenditures that were less representative in size but programmatically meaningful for the leftist agenda (for instance, "Agrarian Organization" and "Citizenship rights").

Contrary to the previous period, the years of the *structuring phase* (2005-2009) coincided with the ascending phase of the business cycle, counting firstly on the rise in external demand and the commodities boom and afterwards on aggregate demand incentives. According to Table 2, this phase presented the highest average output growth rate, the most significant expansion in the average formal employment and the most extensive average increase in the real minimum wage. In addition, the government managed to maintain a primary surplus of around 2 per cent of GDP until 2009, when it fell to 1.3 per cent. In addition, the NSW demonstrates a sustained growth from -1.18 to 2.62 per cent of the GDP, reverting the downward trend that marked the first two years of Lula's government. This turnover also occurred with the wage share (Graph 2), initiating its elevation trajectory that would last until 2015.

Differently from the previous period, the main driver of the trajectory of the NSW in the 2005-2009 period was the collective consumption share (E2), or the provision of public services that are not directly associated with the reproduction of the working class (it went from 5.9 to 7.6 per cent of GDP). This move was generalized among E2 categories, with emphasis on "Health" (from 2.3 to 2.8 per cent) and "Education" (from 2.1 to 2.8 per cent). The social spending share (E1) also increased (from 12.3 to 13.6 per cent of GDP) due to the growing share of expenditures related to social security, social assistance, and labour affairs.

The tax component's stability stemmed from a low steady growth rate in T1 and T2 shares. The surge in social security contributions led T1 to increase and pushed the tax component from 40.9 per cent in 2005 to 42.23 in 2009. In contrast, the IT share oscillated in a downward trend during the period. Nonetheless, the total amount of revenues originated from indirect taxation increased from 2005 to 2008 and contracted only with the late effects of the

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which suggests a neutral intervention of the state in the distributive conflict. It is noticeable, however, that the NSW record low in 2004 coincided with the lowest mark obtained by the wage share of national income (Graph 2). During the 2000-2004 period, the NSW fell while the wage share decreased from 53.9 per cent to 51.8 per cent. In this case, the contraction in state provisions to the working class accompanied its fragilization in the labour market. From this point of view, in contrast, it is important not to underestimate the meaning of a negative NSW, as it increases the pressures on workers regarding the distributive conflict.

international financial crisis in 2009. Until then, indirect taxation benefited from the increase in revenues from ICMS (9 per cent annually on average) and IPI (11 per cent annually on average), which can be associated with booming economic activity.

Therefore, the *structuring phase* reflected a favourable scenario in both the tax and expenditures sides. In terms of the role played by the fiscal policy in mediating the distributive conflict, it is noticeable that tax incidence on the working class continued to increase but followed the path of GDP growth. While in the *preparatory phase*, fiscal space originated from the increase in T1 (which indicated a direct appropriation from labour income), the *structuration phase* counted primarily on the economic boom to sustain revenue flow via indirect taxation as unemployment fell, and the real wage went up (Orair et al., 2013). However, the steady growth in social security contributions can be attributed to the boom in the formal labour market and the consequent expansion of pension contributors (See Table A). According to data presented by Orair (2012), revenues from social security contributions grew 8.9 per cent on average annually for the RGPS and 8.3 per cent for the RPPS in the 2005-2009 period (Orair, 2012).

It suggests that, differently from indirect taxes, which responded to the economic cycle, the increase in social security contributions stemmed from the amplified effects produced by the institutional framework. In 2009, for instance, when output growth fell, the rise in contributions was not affected. Since social security contributions affect labour income directly (are part of T1), a possible expected result would be the fall in the NSW in 2009. Following Gentil and Hermann (2015), it would reflect the link between the expansion of the formal labour market and rising social security contributions which “reinforces the thesis that the social protection system in Brazil is financed by its beneficiaries, partially cancelling the redistributive effects of fiscal policy”.

Nevertheless, despite Gentil and Hermann’s (2015) remark, this was not sufficient to impede the upward move in the NSW to be partially motivated by social spending: its most relevant category (“Social Security”) grew 9.8 per cent annually on average from 2005 to 2009. However, this trajectory did not represent a significant expansion as a share of the GDP, except from 2008 to 2009. Therefore, if, on one side, the social security contributions surge during the period must not be separated from the increase in formal employment, it is suggestible that social security spending needs to be understood in the light of the minimum wage valorisation effect (Brito; Foguel; Kerstenetzky, 2018).

The formal employment boom also contributed to the elevation of the social spending share (E1) due to the expansion of labour affairs expenditures. According to Table A, the amount paid in unemployment insurance and the number of beneficiaries increased during the 2005-2009 period (respectively 16.5 and 9.1 per cent annually on average). This expressed an unusual phenomenon, as these variables are not likely to increase during an employment boom. However, as stressed in section 2, it stemmed not only from the characteristics of labour contracts in Brazil but especially from the effect produced by the “affiliation-contribution-benefit” tripod (Silveira et al., 2020). Since formal job contracts assure access to benefits, government costs with labour affairs tend to increase. Also, as these benefits respond to the minimum wage, the valorisation policy may have contributed to the increase in labour affairs spending.

At this point, one can discuss the meaning of the *structuring phase* in the pro-redistribution attempt. As previously mentioned, from 2005 to 2009, the NSW increased *despite* a booming economy, falling unemployment and fiscal surpluses. This pro-cyclical behaviour contradicted the assumption that state provisions to the working class tend to be more elevated during economic busts. At first, acknowledging this particularity of the NSW suggests that it might stem from the cyclical determinants of fiscal policy: the economic growth favoured tax collection and provided space for expanding government spending.

However, this cyclical effect does not necessarily presuppose a sustained elevation in the NSW. Even if increasing tax revenues lead to more spending, there is no need for the fiscal policy to assume a pro-labour redistributive orientation. This is especially relevant for the Brazilian case, as the tax burden on the working class did not fall in the period.

Therefore, a better assessment of the pro-cyclical NSW lies in the pressure exerted by the institutional framework that was put in motion by Lula's policies. The increase in the social spending share (E1) occurred mainly because of expenditures on social security (pension benefits) and labour affairs (unemployment insurance and other labour rights benefits), the two categories that are susceptible to the redistributive constitutional mechanisms, such as the anchoring function of minimum wage value for social benefits. According to Arretche (2018; 2018a), the Federal Constitution of 1988 also aimed at expanding social rights to the "outsiders", those deprived of accessing government benefits because they did not compose the formal working force. During the *structuring phase*, incentives to formalization managed to reduce the number of outsiders while the gains in minimum wage strengthened not only the position of old and new insiders but also impacted the remaining outsiders, as the informal labour market was also favoured (Medeiros, 2015; Loureiro, 2019).

In addition to social security rights, the inclusion of outsiders also refers to accessing health and education (Kerstenetzky, 2017; Arretche, 2018; 2018a). In that case, a rising NSW reinforces the interpretation that Lula's government has engaged in structuring a redistributive state. It occurred not only by using the available institutional framework but also by improving access to public services: the main contribution to the growing NSW in the period did not stem from social spending (E1 share) but collective consumption spending (E2 share), especially concerning health and education expenditures. Given the non-monetary nature of these expenditures, their role in social wage theory lies beyond the subsistence of the working class, in contrast with poverty-alleviation policies associated, for example, with social assistance. In other terms, government provisions that offer, for example, "socialized medical assistance, mandatory and free universal education" might be expressions of a subsidized consumption obtained by the working class from the state as a guarantee of citizenship rights (Oliveira, 1985, p.8; Bowles; Gintis, 1982).

There are, however, some caveats. There is a common understanding that the Workers' Party experience did not manage to expand these non-monetary transfers at the point of assuring the rights envisioned by the constitution of 1988 (Kerstenetzky, 2017)[24]. Regarding the educational system, rising expenditures on public education were accompanied by changes in the institutional framework and management reforms to strengthen its provision, but also counted on parallel incentives to the private educational market[25]. In addition, despite existing a universal and free access public health system in Brazil, the private health provision benefited from the formal labour market expansion. This effect stemmed from the historical demand from

[24] During these past two decades, the dilemma between amplifying the public supply of these services (which in Brazil points to a universalization access model) and offering subventions to the private sector continued to exist, mobilizing divergent interpretations on the degree of the commodification of these services. On this topic, see Loureiro (2019). Another issue refers to the tax waiver and tax expenditures associated with the burden of household costs with private health and education services, which suggest the "apprehension of the fiscal policy" by elites and middle classes (Silveira; Passos, 2018). Especially concerning health provisions, tax expenditures contribute to the regressive character of total government spending in this category, despite the pro-poor distributional orientation of the public service (Silveira; Gaiger, 2021).

[25] Lula's government created, for instance, a public fund that assured a commitment of federal resources to basic education financing (*FUNDEB)*. It amplified the number of public universities and democratized access to higher education by supporting the implementation of social and racial quotas. Moreover, it approved fiscal exemptions to private universities that provide full and partial scholarships to low-income students (*ProUni)*. In 2009, it ended with the possibility of reallocating tax revenues that were constitutionally linked to financing education (Marques et al. 2018).

unionized workers in Brazil for private health plans but was also a consequence of government institutional reforms (Silveira; Gaiger, 2021)[26].

The *consolidation phase* (2010-2014) began with a record output growth in 2010, as Lula's government had engaged in the countercyclical fiscal policy to contain the effects of the international crisis. Consequently, the NSW behaved countercyclically in the first year of Rousseff's government: it fell as the economic recovery led to a surge in indirect tax revenues. Both E1 and E2 shares reached lower levels in comparison to 2009 but experienced increases in total real spending. Therefore, their contraction occurred because the output growth was larger than the increase in expenditures.

Nonetheless, as discussed in Section 4, the economic landscape changed considerably after 2010. In that period, a lower average growth rate and an increasing fiscal deterioration produced a primary deficit in 2014. In addition, as expressed in Table 2, formal employment and minimum wage expansions evolved at a slower path compared to the previous phase. The *consolidation phase*, however, was characterized by a consistent increase in the NSW (it grew 2.4 percentage points from 2011 to 2014), which presented the highest average among the five phases. This result stemmed from the diverging trends in tax and expenditures components, a feature that lasted until 2017. While the tax component dwindled from 19.1 in 2010 to 17.8 per cent in 2014, the expenditure component jumped from 19.9 to 21 per cent.

Just as falling tax revenues were at the roots of the fiscal deterioration that occurred in the period (Chernavsky; Dweck; Teixeira, 2020), the growth in NSW was linked to the contraction of revenues from ICMS and PIS/COFINS as shares of GDP, although they remained stable in real terms. Social security contributions continued to expand in real terms but at a lower rate. However, different from the previous phase, this was not sufficient to improve the category's position as a share of GDP, which oscillated around 6.5 per cent from 2011 to 2014. This can be attributed to the lower average growth rate in formal employment (Table 2), which entailed a sustained reduction in the growth of the number of employed contributors to social security (Table A) after 2010.

Although most of the increase in the NSW during the *consolidation phase* originated from falling tax revenues, it was also a result of an elevation in the social spending share (E1) (Graph 2). As happened in the *structuring phase*, the rise in E1 share stemmed from social security, social assistance, and labour affairs[27]. These categories, however, were differently affected by the economic slowdown. Following Rousseff's stop-and-go fiscal policy in 2011-2013 period described in Section 4, the total amount spent on social assistance and labour affairs decreased in 2011 but surged in the 2012-2013 biennium, reaching record growth rates (32.3 per cent for labour affairs in 2012 and 17.5 per cent for social assistance in 2013). Even so, the government managed to increase these expenditures as shares of GDP for the whole 2011-2013 period. In 2014, however, even with the large contraction in the output growth, both categories reduced as shares of GDP. It happened for the first time since the beginning of the *structuring phase* regarding social assistance expenditures. Nevertheless, a significant part of the growth in E1 share came from social security expenditures. Differently from other spending categories, it increased as a share of GDP during the whole *consolidation phase*. In addition, the total amount spent on social security was the only which grew at a higher rate in 2014 in comparison to 2013.

[26] Several interpretations suggest that the main issues concerning the SUS originated from limited resources in the national budget ((Mendes; Marques, 2009; Mendes; Weiller, 2015). Despite the expansion of private health plans, SUS has been relevant for the poorest households. According to Arretche (2018a), only 7 per cent of Brazilian household chiefs in the first income quintile had access to private health insurance in 2013.

[27] As a share of GDP, social spending with housing programmes fell during the period. However, it must be stressed that the total amount spent in this category was expanded at higher annual rates (except in 2014) probably associated with the *Minha Casa, Minha Vida*, a housing programme for low- and middle-income households based on subsidized credit provision (Loureiro, 2019).

A few conclusions on the pro-redistribution attempt can be obtained by comparing the drivers of the rising NSW in the *structuring phase* with those of the *consolidation phase*. Regarding the tax component, there exists a relevant distinction: both cyclical (economic slowdown) and policy (tax exemptions) factors affected tax collection in the *consolidation phase* and eliminated the pro-cyclical character of the NSW as the fall in revenues forced the NSW upwards. However, social security contributions (T1 share) remained conditioned to the effects of formalization, despite the deacceleration of the growth in formal jobs. In contrast, regarding the expenditure component, social security spending continued to expand, pointing to the amplification of the pro-labour effect of the social security system. Nonetheless, it is important to stress that the fall in social contributions might also be related to Rousseff's tax exemptions to employers and, therefore, contributed negatively to the strengthening of the labour bargaining power. This effect can be minimized by looking at the wage share of income, which was larger in the *consolidation phase* than in the *structuring phase*.

Despite the fall in the tax component, the persistent effect of the E1 share indicates that the pro-labour fiscal policy forged in the *structuring phase* presented a certain degree of resilience that stemmed from the amplified consequences of formal jobs and gains in the minimum wage. Nevertheless, one should not underestimate the limits imposed on the pro-redistribution attempt by the economic slowdown and, therefore, by the cyclical determinants. In the *structuring phase,* fiscal space allowed the collective consumption share (E2) to lead the rise in the NSW. In the *consolidation phase*, however, the E2 share remained stable and did not contribute to the upward move in the NSW. It occurred despite the increase in real spending with collective consumption: the total amount spent on health and education categories presented annually average growth rates of 5.3 and 6.8 per cent, and other categories that increased during the *structuring phase* did not decrease in real terms (for example, sanitation/urban renovation and transportation). However, it is important to recall the influence of the wage share in the E2 share estimation, as the former expanded considerably during that period.

In 2014, Rousseff was re-elected with a very tight result (51.6 per cent of total votes). As mentioned in Section 2, the policy solution to accommodate economic and political demands was the reversion towards fiscal austerity. After Rousseff's impeachment in 2016, this policy orientation was reinforced by the Temer administration as it approved the Constitutional Amendment n.95/2016, limiting real increases in primary spending for two decades in Brazil. With the victory of Jair Bolsonaro in 2018, austerity became consolidated in a "political turn toward neoliberal policies in its far-right variant" (Martins; Rugitsky, p. 389-390). Therefore, the move towards austerity defined fiscal policy during the *exhaustion* (2015-2017) and the *dissolution* (2018-2019) *phases*.

The NSW, however, behaved differently in the two phases, moving upward in the former and downward in the latter. Hence, it entails that changes in fiscal policy were not entirely at the origin of the exhaustion of the pro-redistribution attempt. Even with the cut in government expenditures, NSW reached its highest average value (4.83 per cent of GDP) in the 2015-2017 period (Table 2), being surprisingly led by an increase in the expenditure component while the tax component remained stable (Graph 1). Again, the social spending share (E1) was responsible for the upward move, jumping from 14.5 to 15.8 of the Brazilian GDP. This could suggest that the increasing NSW during the *exhaustion phase* stemmed from its countercyclical potential associated with the rising social spending in a period of crises, usually associated with the effects of the automatic stabilizers.

However, this seemed not to be the case. Most social spending categories were constricted from 2015 to 2017. For instance, the average real growth rate in social assistance expenditures was almost zero, despite its ampliation as a share of GDP. Moreover, labour affairs spending decreased by 15.4 per cent between those years, even with a plunge in formal employment (Table 2). In addition, contrary to the expected, unemployment insurance beneficiaries and paid benefits were reduced (Table A). It highlighted, however, the positive relationship between formal employment and labour affairs expenditures.

Yet, the only exception was social security spending. First, it presented an average growth of 3.9 per cent per year. Second, it also increased its participation from 11.5 to 12.7 per cent of GDP from 2015 to 2017. It happened even with the lowest valorisation of the real minimum wage since the *preparatory phase* (1.7 per cent annually on average). Therefore, instead of pointing to a cyclical consequence, the rising NSW during the *exhaustion phase* indicated the resilience of the pro-redistribution attempt, manifested in a pro-labour fiscal policy rigidity: after orientating the policy agenda towards the activation of redistributive mechanisms foreseen in the Brazilian legislation, the Workers' Party legacy manifested itself in an enduring upward trend of social security spending. This can be attributed to both the expansion of pension system beneficiaries and the increasing value of baseline benefits. It is important, in addition, to stress that this resilience of pro-labour fiscal policy was not only the result of the social security effect over the social spending share (E1) in that period but reflects a decade of growing expenditures directed towards the working class: from 2005 to 2017, the expenditure component in NSW increased from 18.2 per cent to 23.3 per cent of GDP. In the end, neither cyclical nor policy factors were strong enough to force the NSW to decrease in the *exhaustion phase*, despite the reduction and/or stagnation in the growth of monetary and non-monetary income transfers.

At this point, the analysis of the NSW complements the attempts to explain how the distributive conflict was related to the political crisis that interrupted Rousseff's administration and realigned forces against the state's pro-labour intervention. According to different estimations, there is evidence that during the years of the *preparatory* and the *structuring phases*, the profit rate in Brazil presented an upward move that contrasted with a long-term fall in profitability that started in the 1950s (Marquetti and Porsse, 2014; Marquetti; Hoff and Miebach, 2020; Martins and Rugistky, 2021). This increase was associated with cyclical booms and busts, but which did not last enough to indicate the occurrence of a cyclical profit squeeze. According to Martins and Rugistky (2021), the 2001-2003 cycle was interrupted by a strong exchange rate depreciation that preceded Lula's election and the 2003-2009 cycle by the international financial crisis. However, this last cycle counted on a falling profit share mostly attributed to the decline in the unemployment rate and the increase in real wages above labour productivity (Marquetti; Hoff and Miebach, 2020). The rise in the wage share of income during the *structuring phase* of the pro-redistributive attempt was related to a composition effect: the increasing participation of labour-intensive sectors (wholesale, retail) in the total value added in the economy forced the elevation of the average wage share of income (Dias and Ruiz, 2016; Rugitsky, 2017). At that time, it did not pressure profitability because of the increase in the utilization capacity, which compensated for the fall in the profit share (Martins and Rugitsky, 2021).

The *consolidation phase*, however, coincided with a very different scenario regarding distributive conflict. As mentioned in Section 4, the combination of factors that allowed high growth rates in the previous period did not exist in the same conditions. According to Marquetti, Hoff and Miebach (2020, p. 122) for instance, the capacity utilization reached a high level, which "indicated that to maintain 4 per cent growth would require an increase in the investment rate". Therefore, as the other determinants of profitability began to decline (utilization rate and capital/capacity rate), the wage share of income continued to increase (See Graph 2). Differently from the *structuring phase*, in which the fall in the profit share had a sectoral bias, the *consolidation phase* was marked by a general increase in labour gains among sectors, which entailed the occurrence of a cyclical profit squeeze. In this context, as expressed by Martins and Rugistky (2021, p.388), the Brazilian "class conflict came to the fore". The intensification of the labour struggle that occurred during the same period, indicated by the rising number of strikes, tends to reinforce this conclusion (Braga, 2016; Singer, 2020).

If the *consolidation phase* of the pro-redistributive attempt coincided with the rising tensions between capital and labour, the increase in the NSW during the *exhaustion phase* helps to qualify the political turnover after 2014. From 2015 to 2017, the resilience of pro-labour fiscal policy expressed in the sharp rise in the NSW contrasts with a falling wage income share, an increase in unemployment and a deliberate cut in government expenditures. In parallel, the worsening economic conditions affected tax revenues and compromised fiscal equilibrium, leading to subsequent primary deficits. Consequently, cyclical and policy determinants showed their limitations in controlling the increase in the social spending share (E1), mostly because of the enduring effects of the Workers' Party's attempt to activate constitutional redistributive mechanisms.

Following this, the NSW trajectory in the *exhaustion phase* indicates that a structural change in the size of the social spending may have lied behind the underestimated increase in labour bargaining power (Serrano and Summa, 2018; Dweck and Teixeira, 2017). If falling unemployment, increasing formal labour contracts and gains associated with the minimum wage indicate (as expressed in the profit squeeze) a direct impact on the distributive conflict, the enduring effects of these changes on the trajectory of social spending (especially regarding social security) suggest a more subtle redistributive mechanism.

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Nonetheless, the growth trajectory of the NSW unveils a persisting pro-labour orientation of the fiscal policy that could represent a long-term compromise of the Brazilian state in promoting redistribution. In that sense, it reveals that the Workers' Party's pro-redistribution attempt was partially successful and suggests that the fiscal responsibility discourse that pervaded the campaign for Rousseff's impeachment was more than a political artifice and could be related to the role played by the Brazilian state in the distributive conflict. The fact that the NSW recorded in 2017, after the removal of Rousseff and the approval of the spending ceiling, reinforces the enduring pro-labour fiscal policy hypothesis. In summary, once the resilience of pro-labour fiscal policy stemmed from the activation of redistributive mechanisms that were foreseen in the Brazilian institutional framework, "the successive attacks on labour legislation, public services, and redistributive policies that took place in the period can be interpreted as, among other things, and attempt to avoid a recurrence of a profit squeeze" (Martins and Rugitsky, p. 390).

Following this, one can interpret the reforms in the institutional framework that occurred after the end of the Workers' Party governments as the disintegration of the drivers that allowed the pro-redistributive attempt. They have impacted the direct and indirect redistributive potential of the Brazilian state. First, on one side, the spending ceiling has established limits for primary expenditures to grow, which compromised the ability of the state to cope with rising reproductive demand from the working class in the medium term. On the other side, it has imposed a zero-sum game over a pro-labour fiscal policy: if the government wants to spend more in one category, it must now cut other expenditures. This hindrance has already impacted public investment, as the amount invested by the central government has fallen gradually since 2016. There is, nonetheless, a more subtle consequence, which is the eventual removal of constitutional obligations to allocate resources to health and education, for example, under the need to expand the primary budget.

Nevertheless, by considering the NSW trajectory in the *dissolution phase (2018-2019)*, the importance of the reform of the labour legislation and the pension system comes to the fore. After 2017, the NSW seemed to have reverted its long upward trajectory and began to fall. According to Graph 1, the downward move was motivated by both an increase in the tax component and a fall in the expenditure component. The former relied on the growth in the IT share, denoting the cyclical determinant. The latter was due to the decrease in the E2 share, possibly reflecting restrictions imposed by the spending ceiling. The E1 share, however, did not decrease. On the contrary, social security spending oscillated upward as a share of GDP. Therefore, as expressed in Table 2, the pro-labour fiscal policy persisted even with the lowest growth rate in formal employment and a depreciation of the real minimum wage. Following the discussion in Section 4, it suggests the importance of the long-term effects of the labour and pension reforms to eliminate the pro-labour orientation in fiscal policy. Finally, it did not seem by chance that, as expressed by Saad-Filho (2020, p.22), despite the "staggering confusion" that characterized the Bolsonaro administration, the economic policy proved to be aligned and dominated by the neoliberal turn, with its priority being the dismantlement of the pension system "in order to introduce another one based on individual accounts, minimal redistribution between generations or classes, and tough restrictions upon drawing on pension income".

7 FINAL CONSIDERATIONS

It is common to attribute the success of the recent redistributive experience in Brazil to the expansion of social income transfers during the Workers' Party administrations (2003-2016). Indeed, as the specialized literature indicates, the growth in these provisions, emblematically represented by the Bolsa Familia Programme, had been determinant for reducing poverty and inequality in the first two decades of the 21st century. Nevertheless, evidence suggests that the redistributive experience also had roots in more subtle but determinant mechanisms associated with the labour market. The first was the significant increase in jobs allocated in the formal sector, as the unemployment rate decreased consistently from 2004 to 2014. The second refers to gains in labour income associated with annual increases in the national minimum wage. These results stemmed not only from the favourable economic environment but have been consequences of policy decisions that favoured the working class during the years of the Workers' Party governments.

This article discussed the redistributive role played by the Brazilian state during the period and argued that those changes in the labour market were central to establishing a pro-labour orientation in fiscal policy, manifested in the consistent growth of expenditures directed to the working class. It estimated the net social wage from 2000 to 2019 and indicated an upward trend in the provisions of the Brazilian state to workers, which lasted from 2005 to 2017. In addition, the net social wage left a near-zero zone in the first years of the series to record more than 5 per cent of the GDP in 2017. These results allow us to suppose that the Workers' Party administration had engaged in a relatively successful pro-redistribution attempt, which had to be interrupted and disintegrated as the distributive conflict intensified. This attempt was possible as the government managed to activate existing but underused institutional redistributive mechanisms, which originated from the constitutional framework established in 1988 with the re-democratization. In short, while incentives to formalization incorporated more Brazilians into the public social protection system, increases in the value of the minimum wage produced a generalized expansion of the value of the benefits.

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This attempt was possible as the government managed to activate existing but underused institutional redistributive mechanisms, which originated from the constitutional framework established in 1988 with the re-democratization. In short, while incentives to formalization incorporated more Brazilians into the public social protection system, increases in the value of the minimum wage produced a generalized expansion of the value of the benefits. Therefore, Brazilian fiscal policy became increasingly pro-labour oriented, not only because of the Workers' Party policy agenda but due to the enduring effects of labour market transformations in social spending. During most years of the Workers' Party administration, a growing state provision to the working class coexisted with the rise in the wage income share. Hence, fiscal policy might have contributed to intensifying the Brazilian distributive conflict that culminated in the parliamentary manoeuvre to remove Dilma Rousseff from the presidency in 2016.

Considering this, the trajectory of the net social wage alludes to five moments that resume the rise and fall of the pro-redistribution attempt. The *preparatory phase* (2000-2004) guaranteed fiscal conditions for the latter. As the net social wage fell, the moment before and during Lula's first government relied on the working class to absorb the burden of fiscal adjustment. From 2005 to 2009, during the *structuring phase,* the net social wage increased without pressuring the government budget, as favourable economic conditions led to high output growth and tax revenue collection. Because the net social wage represents the state provision associated with the reproduction of the working class, it tends to fall during boom phases and increase in the downturn. However, it did not happen in Brazil during the *structuring phase*. Part of the explanation lay in the surge in social spending expenditures due to the increase in formal employment and in the minimum wage value (social security and labour affairs spending categories). But a more meaningful result was the ion of health, education and other collective consumption spending categories. As stated by the net social wage theory, a rise in these expenditures tend to represent a growing state's commitment to a welfare model that guarantees the expansion of citizenship rights.

Nevertheless, whether the trajectory of the net social wage after 2010 informs the relative success of the pro-redistribution attempt, it also indicates the limits of the experience. In the *consolidation phase* (2010-2014), falling tax revenues associated with the economic slowdown contributed to the increase in the net social wage. Expenditures did not contract, although cuts in collective consumption spending announced the rising fiscal limitations on welfare provision. Also, the *consolidation phase* coincided with a moment in which the distributive conflict between labour and capital became evident, as the increase in the wage income share generated a cyclical profit squeeze.

Economic slowdown, fiscal deterioration and political discontentment led Dilma Rousseff to revert fiscal policy towards austerity in 2015. However, it did not produce changes in the trajectory of the net social wage until 2017. This apparent inconsistency is explained by the growing social security spending as a share of GDP, as other tax and expenditures categories remained stable. Therefore, the pro-redistribution attempt entered the *exhaustion phase* (2015-2017) as the pro-labour orientation of fiscal policy stemmed solely from the increase in social security spending. It occurred despite the increase in unemployment and the slowdown in formal jobs and minimum wage raises.

Hence, the resilience in the pro-labour orientation of the fiscal policy expresses the fundamental driver of the pro-redistribution attempt, which derived from the enduring effects of changes in the labour market over social spending. After the cyclical profit squeeze between 2009 and 2014, class disputes spilt over the political realm, and the capitalist reaction to rising labour bargaining power turned to the fiscal capacity of the Brazilian state to spend with the working class. But neither the impeachment of Rousseff nor the deepening of austerity measures proved being enough to interrupt the pro-redistribution attempt. In the *dissolution phase* (2018-2019), the net social wage finally reverted its upward trajectory and fell, but social security spending did not contract, remaining stable as a share of GDP. It entails that halting the pro-labour orientation of fiscal policy required the elimination or at least the alteration of the institutional framework that assured the activation of the redistributive mechanisms during the Workers' Party. Therefore, in addition to the short-term solution provided by the spending ceiling, reforms in labour legislation and social security combined with the end of the minimum wage valorisation policy suggest a medium-term trajectory of re-establishing capital bargaining power.

Finally, the net social wage trajectory implies that the cyclical profit squeeze that followed the long expansion in Brazil might have counted on the contribution of the redistributive role played by the Brazilian state. On the one side, evidence of the improvement in inequality and poverty levels combined with the consistent increase in the net social wage from 2005 to 2017 supports the hypothesis of a state-induced profit squeeze. On the other, the redistributive attempt relied on incentives for the growth of formal employment and the rise in the minimum wage. Although these policy choices have contributed to a pro-labour orientation in fiscal policy, one must not underestimate their direct impact on capital-labour relations within the labour market. In other words, the rising labour bargaining power during the period advocates for a wage-induced profit squeeze. Hence, the denouement of the Workers' Party pro-redistribution attempt points to a two-sided effect (wage and state-induced) associated with the cyclical profit squeeze.

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ANNEX I.

TABLE A. – Net social wage for Brazil and macroeconomic variables (2000-2019)

	NET SOCIAL WAGE											Wage Income Share (%)	Real GDP Growth (%)	Total jobs in formal market	Real minimum wage (BRL)	Unemployment insurance beneficiaries	Employed social security contributors	Fed. Govmnt. Primary result (% GDP)
	Expenditures				Tax revenues						NSW (%)							
	E1/GDP	E1/E	E2/GDP	E2/E	T1/GDP	T1/T	T2/GDP	T2/T	IT/GDP	IT/T								
2000	11,19	67,47	5,40	32,53	6,41	39,55	0,38	2,34	9,41	58,11	0,39	53,30	4,39	20.239.434	599,13	349.024	27.265.342	2,15
2001	10,98	64,78	5,97	35,22	7,01	39,30	0,61	3,42	10,22	57,29	-0,89	53,97	1,39	20.830.513	653,56	391.563	29.767.846	1,72
2002	12,34	66,03	6,35	33,97	7,19	41,19	0,66	3,78	9,61	55,03	1,24	52,66	3,05	21.592.927	670,25	401.218	30.805.068	2,20
2003	11,57	65,27	6,16	34,73	7,29	40,61	0,64	3,56	10,02	55,82	-0,23	52,31	1,14	22.238.360	674,92	416.248	31.454.564	2,27
2004	11,96	67,36	5,79	32,64	7,58	40,05	0,63	3,35	10,72	56,61	-1,18	51,79	5,76	24.034.895	700,04	402.088	33.317.408	2,69
2005	12,27	67,52	5,90	32,48	7,85	40,86	0,64	3,35	10,72	55,79	-1,03	52,81	3,20	25.596.428	748,78	451.165	35.935.331	2,58
2006	12,83	67,35	6,22	32,65	7,59	41,22	0,68	3,71	10,14	55,07	0,63	53,33	3,96	27.146.030	854,02	480.425	37.414.658	2,14
2007	12,64	65,36	6,70	34,64	7,57	41,05	0,78	4,24	10,09	54,71	0,90	53,40	6,07	29.089.080	905,64	516.276	40.226.058	2,21
2008	12,66	64,41	6,99	35,59	7,71	40,28	0,77	4,01	10,66	55,71	0,52	54,13	5,09	30.796.370	933,50	570.304	43.729.471	2,31
2009	13,62	64,04	7,65	35,96	7,87	42,23	0,81	4,34	9,96	53,43	2,62	55,36	-0,13	32.194.215	1000,91	621.988	45.193.098	1,29
2010	13,01	63,86	7,37	36,14	7,98	41,73	0,78	4,06	10,37	54,21	1,26	54,53	7,53	34.824.042	1054,08	612.158	48.649.216	2,04
2011	12,87	64,74	7,01	35,26	8,06	42,11	0,79	4,10	10,29	53,79	0,75	55,08	3,97	36.850.613	1055,01	653.902	51.681.597	2,14
2012	13,32	65,11	7,14	34,89	8,14	42,56	0,80	4,18	10,18	53,26	1,33	55,96	1,92	38.223.207	1143,89	650.981	53.912.656	1,80
2013	13,67	64,45	7,54	35,55	7,82	42,62	0,77	4,22	9,75	53,16	2,87	56,40	3,00	39.361.769	1172,03	692.927	55.687.889	1,44
2014	13,85	66,04	7,12	33,96	7,91	44,36	0,78	4,38	9,14	51,26	3,13	56,17	0,50	39.782.459	1180,41	708.275	56.625.128	-0,35
2015	14,55	65,02	7,82	34,98	8,21	44,26	0,89	4,80	9,44	50,94	3,83	57,46	-3,55	38.247.470	1175,61	641.951	54.656.148	-1,93
2016	15,36	67,40	7,43	32,60	8,17	45,24	0,86	4,77	9,03	49,99	4,74	57,37	-3,28	36.920.912	1200,37	599.681	51.624.976	-2,53
2017	15,77	67,81	7,49	32,19	8,10	44,78	0,89	4,90	9,10	50,32	5,16	57,06	1,32	36.908.949	1240,97	544.153	50.144.413	-1,79
2018	15,69	67,95	7,40	32,05	8,32	44,04	0,98	5,20	9,59	50,76	4,19	56,39	1,78	37.455.394	1228,37	520.767	52.566.404	-1,65
2019	15,75	68,87	7,12	31,13	8,36	42,93	1,06	5,43	10,06	51,64	3,39	56,56	1,22	38.099.473	1238,46	525.404	53.216.974	-1,20

Source: Own elaboration. Based on BSPN, System of National Accounts - Brazil, IBGE, System of Time Series Management of the Brazilian Central Bank, Ipeadata, Social Security System Historical Database - Brazil, Historical Series of Unemployment Insurance - Brazil.

Table B. Net social wage components and subcomponents as shares of GDP

		NSW components and Subcomponents (% GDP)				
		Preparatory phase **(2000-2004)**	***Structuring phase*** **(2005-2009)**	***Consolidation phase*** **(2010-2014)**	***Exhaustion phase*** **(2015-2017)**	***Dissolution phase*** **(2018-2019)**
E1	Social Security	9,85%	10,36%	10,42%	12,16%	12,77%
	Social Assistance	0,72%	1,19%	1,44%	1,58%	1,59%
	Citizenship Rights	0,09%	0,17%	0,20%	0,21%	0,22%
	Housing	0,09%	0,15%	0,14%	0,08%	0,06%
	Work	0,75%	0,77%	1,04%	1,15%	1,05%
	Agrarian Organization	0,10%	0,17%	0,11%	0,05%	0,03%
E2	Education	2,31%	2,43%	2,75%	3,05%	2,92%
	Health	2,12%	2,46%	2,58%	2,93%	2,90%
	Culture and Leisure	0,10%	0,15%	0,17%	0,13%	0,12%
	Energy	0,11%	0,04%	0,02%	0,03%	0,03%
	Environment	0,09%	0,12%	0,13%	0,12%	0,12%
	Transportation	0,63%	0,64%	0,67%	0,51%	0,41%
	Communication	0,05%	0,02%	0,03%	0,02%	0,02%
	Sanitantion and Urban Renovation	0,44%	0,70%	0,74%	0,68%	0,66%
	Science and Technology	0,08%	0,12%	0,13%	0,11%	0,09%
T1	Social security contributions and payroll taxes	5,90%	6,39%	6,62%	6,61%	6,58%
T2	Withholding income tax incident on labour - IRRF-L	1,19%	1,33%	1,36%	1,55%	1,77%
	Personal income tax (IRPF)	0,16%	0,24%	0,28%	0,33%	0,34%
	Motor vehicle tax (IPVA)	0,19%	0,28%	0,27%	0,26%	0,30%
	Urban property tax (IPTU)	0,22%	0,21%	0,22%	0,28%	0,36%
	Rural property tax (ITR)	0,01%	0,01%	0,01%	0,01%	0,01%
IT	Tax on industrialized goods (IPI)	0,66%	0,58%	0,50%	0,42%	0,42%
	Tax on sales of goods and services (ICMS)	3,54%	3,70%	3,42%	3,05%	3,52%
	Import tax (II)	0,30%	0,25%	0,34%	0,31%	0,33%
	Tax on services (ISS)	0,26%	0,34%	0,44%	0,48%	0,51%
	Tax on financial operations (IOF)	0,14%	0,22%	0,35%	0,31%	0,30%
	Other contributions (PIS/COFINS/PASEP)	5,09%	5,22%	4,90%	4,61%	4,74%

Source: BSPN, IBGE, Pires (2021).