Brazil's Deep-seated Economic and Social Crisis

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*"No data supports such a deceptive narrative. The oligarchy prefers to definitively bury the country, than to acknowledge mistakes," Economist **Ladislau Dowbor***

*Dialogue has been stuck in Brazil today not only for hate, indiscriminately spread by characters like **Jair Bolsonaro**. Countless "myths" have been recently created in the South American giant, through which the mainstream media has promoted politicians and advanced an agenda for the social establishment, namely Brazil's elites.*

Social confusion has been necessary to achieve that goal. Both sides, totally baseless discussing a "point" that leads nowhere – but more division -, has been the rule in Brazil.

One widely spread "myth" says that social "spendings" during the Workers' Party (PT) years, have generated the current economic crisis blaming 30 million Brazilians lifted out from poverty from 2003 to 2016, removing Brazil from the UN World Hunger Map (never improving basic sanitation, housing conditions nor public health) due to a real increase on the minimum wage, a full employment (never improving work conditions nor providing a fair access to justice to all social segments), and to social programs like Family Allowance.

> "Family Allowance, which reached about 50 million poor people, cost about 30 billion reais [about US$ 8,1 billion]. In 2015, interest rates on the public debt cost 500 billion reais [about US$ 135,25 billion], 8% of the Gross Domestic Product," pointed out the Brazilian Economist Ladislau Dowbor, the author of The Era of Unproductive Capital.

In 2016, 42,04% of Brazil's production was transferred to the financial sector, 4,11% to public health, 3,49% to education, and 1% do Family Allowance.

> "We are in the age of virtual money. Extracting money from millions has become a simple task; paying for a credit card purchase, Brazilians pays the banks a toll of 5%.
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> "Buying household goods on time involves an average interest of 130%. The overdraft is at 320%, the rotary on the card is above 400%. Interest rates in Brazil, according to the products, vary between 800% and 1200% in relation to what is charged, for example, in Europe," says Dowbor.

The renowned economist points out to the Federal Constitution to state that such a "politics" has been criminal in Brazil. "Article 192 sets a limit of 12%, plus inflation, as the maximum rate of interest to be charged in the country." This Brazil's Central Bank list shows *how interest rates have – especially during PT years – violated the local Constitution, getting 14,15% in the Dilma administration, and 26,32% in the Lula administration [see the left table, "Taxa Selic, % a.a." (a.a. =per year].*

At the same time, tax evasion, an old problem much worse than corruption but never approached by the local justice system, cost 906 billion reais [about US$ 245,07 billion] to the country.

Though the minimum wage increased in PT years as never before in Brazil's history, it has been insufficient, lower than the Paraguayan minimum wage proportionately and absolutely.

On the other hand Brazil never lived, neither in PT years, under a "mushroom" of social investment, a "Social Revolution" as the party – and its "alternative" media – for some time heralded. Luiz Inacio Lula da Silva never failed in his 2002 promises to meet the interests of the big banks, the upper classes and the Washington Consensus.

Neither Brazil lived any Social Revolution at any time in history, nor the poor through PT "leftovers" – as observes Dowbor – during its 13 years in power are guilty of the current deep crisis.

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*Below, the full interview with **Ladislau Dowbor**, author and co-author of more than 40 books, a former consultant for several UN agencies, and for Brazilian state and municipal governments. This interview was recorded prior the elections.*

Edu Montesanti: How has Brazil got to this economic situation? What is the origin of the current crisis?

Ladislau Dowbor: There is not much mystery about what is happening in Brazil. What we are living now is the good old fight for the social surplus. The most practical thing to understand the dynamics is to simply follow the story, tell the story as it was.

The starting point is the Constitution of 1988, which defined a set of social rights. Particularly, the Article 192 sets a limit of 12%, plus inflation, as the maximum rate of interest to be charged in the country.

The second key moment is the breakdown of hyperinflation in 1994. At the time, there were 44 countries under hyper-inflation. You could not take part in the expanding global financial system, as a currency that changed in size every day. With the return of democracy, a modern constitution and low inflation, Brazil returned to modernity.

The deconstruction began shortly thereafter: in 1995, the government passed two fundamental laws, one granting very high remuneration on public debt securities (Selic rate), and another eliminating the tax on distributed profits and dividends.

At the time, bankers were able to apply the money of the clients in public bonds, paying 25% on average, about 20% real.

With this, a large part of the public resources was diverted to pay interest rates on the public debt. And those who earned from this moneylender were exempt from taxes. This lasts until today.

By 2018, we must transfer to the private speculative system, with this mechanism alone, about 6% of GDP.

The dismantling of the Constitution was aggravated by the 1997 law, which made legal financing of campaigns by corporations up to 2% of the previous year's capital.

This legalization of the corporate appropriation of the political system, in particular, allowed the Congress to become agribusiness banks, banks, and other conglomerates.

The Federal Supreme Court took 18 years to realize at the end of 2015 that Article 1 of the Constitution, "all power emanates from the people," had been violated.

It was an unconstitutional Congress, that would come to vote the impeachment of the then-President Dilma Rousseff, and the set of laws that made Brazil go back decades.

In 1999, the Constitutional Amendment Proposal was meant to amend article 192, eliminating the limits on interest to be charged. Transformed into a Constitutional Amendment in 2003, it closed this stage of deconstruction of the Constitution, by making it legal for the country to take out mortgages.

Edu Montesanti: How did both the Lula and Dilma administration deal with this situation?

Ladislau Dowbor: The candidate Lula, in June 2002, publicly read the Letter to Brazilians, essentially addressed to bankers in which he committed to respect the system thus created. He made it clear at the time that he would be pleased to provide the population with three meals a day. He would work with the leftovers, without disturbing the mainstream of financial intermediaries.

The leftovers made it possible to do a miracle. To give you an idea, Family Allowance, which reached 50 million poor people, cost about 30 billion reais. In comparison, in 2015 the payment of interest on the public debt was 500 billion reais.

The World Bank evaluated the period 2003 to 2013 as the golden decade, the golden decade of the Brazilian economy. The mechanism is simple: increasing the suppressed demand of the population base, with more than a hundred inclusion programs, such as Light for All, Million Cisterns, increase in the minimum wage and other measures, expanded the domestic market for basic products of popular consumption.

Unemployment fell from 12% in 2002 to 4.8% in 2013, which further increased demand. As the productive machine of Brazil works with great idle capacity, there was no inflationary impact.

In ten years, the country changed its face, in particular because the increase in income at the base of the population was accompanied by the expansion of the collective consumption of public goods such as health, education, the so-called "indirect wage".

Edu Montesanti: Even considering some advances socially speaking, neither the Lula nor the Dilma administration changed Brazil's highly financialized structure, did they, Professor Dowbor?

Ladislau Dowbor: We are in the age of virtual money, immaterial magnetic sign. Taking money individually from the pockets of the poor, one by one, in time of money-paper material, was only viable through inflation.

In this new system, where everyone has a credit card in their pocket, extracting money from millions has become simple, and financial intermediaries have learned quickly. To get an idea, in payment for a credit card purchase the Brazilian pays the banks a toll of 5%.

Buying household goods on time involves an average interest of 130%. The overdraft is at 320%, the rotary on the card is above 400%. Interest rates in Brazil, according to the products, vary between 800% and 1200% in relation to what is charged, for example, in Europe.

The knot was tightening. In March of 2005, the average Brazilian family had a debt that corresponded to 18% of their income. In March 2013, the debt reached 43%, not very high in comparative terms, but when paying astronomical interest stifled the purchasing power of families. This system is still standing. In June 2018 we had 63.3 million adults in debt, that is, without possibility of recourse to credit, for not being able to pay previous debts. If we add to this number the families, we are talking about half of the Brazilian population [212 million people].

The rest is a predictable mechanism. The collapse of household consumption, which is felt strongly from 2012, naturally reduces business activity. The companies – not the big ones that take money abroad or negotiate at the BNDES [National Bank for Economic and Social Development]- but the 9 million small and medium-sized companies, not only faced a reduction in demand, but also interest at the banks, such as 29% on capital in February 2018.

And to apply the money in public debt securities, it simply yielded more with zero risk and total liquidity, than to make productive investment. Both the reduction in household demand and the reduction in business activity naturally reduced state revenues. And the state itself saw its revenue leak for the payment of interest on the public debt.

The whole system had become financialized. The volume of interest extracted from households and companies in 2015, according to the Central Bank, reached 1 trillion reais, 16% of the GDP. And the interest paid by the government to the banks, on public debt, this year reached 500 billion reals, 8% of the GDP.

In addition, the flow of interest extracted from the population, companies and the State thus reaches more than 20% of GDP. Of course, no economy can survive this way, and the Brazilian recession does not really have any mystery in this sense.

The drama that grew, as the financial system bleeds the economy, was clear to Guido Mantega, to Dilma and to Lula himself. In 2012, Dilma decided to begin to contain interest. Reduced interest rates for families and companies in public banks, Banco do Brasil and Caixa Econômica Federal, and lowered the remuneration of government bonds from 12% to 7.25%.

From this moment, the war begins. Many account holders left private banks such as Itaú, Bradesco and Santander, and went to take refuge from the moneylender in public banks. This meant, for private banks, that the Letter to Brazilians had been torn.

And rentiers in general, bankers as well as the upper middle class and many productive enterprises, were disgusted by the fact that easy yield on public debt was drastically reduced. As of 2013, there is no more government in Brazil, there are boycotts, demonstrations enthusiastically inflated by the media.

An iron arm then started to be imposed on the governmet. Even re-elected, Dilma did not have any strength to face the rentier offensive, and names like Joaquim Levy, a man of the banks, was called by the the then-president as responsible for the government's economic policy.

They had broken the economy, then a political deconstruction had begun.

Edu Montesanti: Speak on Lula's detention, Dilma's impeachment due to an allegedly fiscal crime, blamed for the economic crisis by the mainstream media and the opposition, and this last weeks of the Temer administration.

Ladislau Dowbor: Dilma was removed without any crime, Lula was imprisoned without guilt. Today we have Itaú in charge of the Central Bank, and Bradesco in charge of the Ministry of Finance.

Unemployment rose again to 13%. In the same period in which GDP fell by 3.5%, Bradesco got a profit increase of 25%, and Itaú by 32%. Today we have the return of hunger, and the amazing increase even of infant mortality.

Four years ago, the bankers are "fixing" the country, after announcing that Dilma had generated the crisis with a populist policy that would have broken public finances. The bankers would install austerity, therefore a serious policy.

No data supports the narrative created. This is a deception. What is not a farce, is that Dilma's measures were aimed at restoring the balance of development of the country by reducing the bleeding generated by the unproductive financial system. Public accounts got a surplus of 1.4% of GDP in 2013, and even with the drain of 3.5% of GDP paid in interest on public debt, the nominal result was -2.1%.

Nothing dramatic, but the essential thing is that the imbalance was never originated by excesses of social policies, of 'populist measures', but by the excess of interest paid to the financial intermediation system and to the upper middle class.

An unproductive financialization of this dimension, breaks any economy. The rest, are expected results. As we have seen, we have been waiting for four years. In 2017 the nominal result of the government presents a deficit of 7.0%.

Edu Montesanti: What should the new government do to overcome the crisis?

Ladislau Dowbor: The task of Brazil's next government is clear: using official banks to reduce moneylending, by reducing interest rates, thereby reintroducing competition mechanisms in the current banking system.

Relieving consumption by reducing indirect taxes, and taxing financial speculation, reintroducing in particular the payment of taxes on profits and distributed dividends.

Retaking the expansion of social policies that favor the bottom-up of the society, which liberate income for consumption of goods and services.

The Brazilian economy is not broken. Companies are operating with a gigantic idle capacity, and the resumption of the virtuous upward circle is perfectly viable.

What is unfeasible is to convince the Brazilian oligarchy that they should re-produce. Much less feasible, it is leading them to the humiliating realization that, by breaking the virtuous circle of reducing inequalities, they shot themselves.

Dumbness enjoys, as Barbara Tuchman very well, an immense power of inertia.

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