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Brazil Facing More Than the Pandemic: Distribution and Exclusion in Economic Policy[1]

by Ladislau Dowbor and Bruno Barbosa Cezar

The Brazilian economy followed an expansive and socially inclusive model from 2003 to 2013. As of 2014, a drastic reversion of policies took place with the introduction of the so-called austerity model. Comparing the two models, one more equalitarian and the other more wealth-concentrating, is useful for clarifying how key economic variables change. The evolution of key economic and social data covering the two decades of our millenium shows how a dynamic distribution process was broken down. The main conclusion concerns the power of financialization in the overall transformation of our society.

Keywords: Economic model, Financialization, Public budget, Inequality, Austerity

A economia brasileira adotou um modelo de desenvolvimento dinâmico e inclusivo entre 2003 e 2013. A partir de 2014, a política distributiva foi travada, com uma inversão radical no quadro do modelo de austeridade. Ao comparar os dois modelos, o mais igualitário e o concentrador de riqueza, fica clara a transformação das principais variáveis econômicas. A evolução dos dados econômicos e sociais mostra como a dinâmica de distribuição foi travada. A principal conclusão se refere ao poder da financeirização no conjunto da transformação da nossa sociedade.

Palavras-chave: Modelo econômico, financeirização, orçamento público, desigualdade, austeridade.

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> *From 2003, the country has become recognized for its success in reducing poverty and inequality and its ability to create jobs.*
>
> **— World Bank Group, 2016**

> *What happened to Brazil? BBC News explores the crisis years of 2013–2018 in Brazil and looks at how the dreams of a better future disappeared.*
>
> **— BBC News, 2019**

During the past two decades, the economic, social, and political transformations taking place in Brazil have been subject to ideological arguments that have obscured the understanding of the matter. The line of reasoning, repeated time and again by the media and in political speeches, is centered on the idea that the undeniable success of the development model in effect between 2003 and 2013 was the result of favorable conditions in the international commodity market. The period is said to have seen an irresponsible transfer of resources to the poor masses of the country that literally "ruined the public accounts." The first argument hardly stands, since Brazil's exports make up approximately 10 percent of the gross domestic product (GDP), and the domestic market is responsible for 90 percent of the economic dynamics. The "nothing but blue skies" argument is essentially used for political purposes, aiming to obscure the efficacy of the distributive policies.

This article aims to clarify the second argument, according to which "the good housewife spends only what she has," that "helping the poor" is demagogic populism, and that, at any rate, the distributive model is limited because "mass consumption has lost its capacity to drive economic growth." Starting in 2014–2015, there was a drastic shift from the distributive phase to an austerity model that promised to balance the public budget and promote development. Considering this major reversion, systematizing the main indicators for each phase seems particularly instructive: these are two clearly contrasting models.

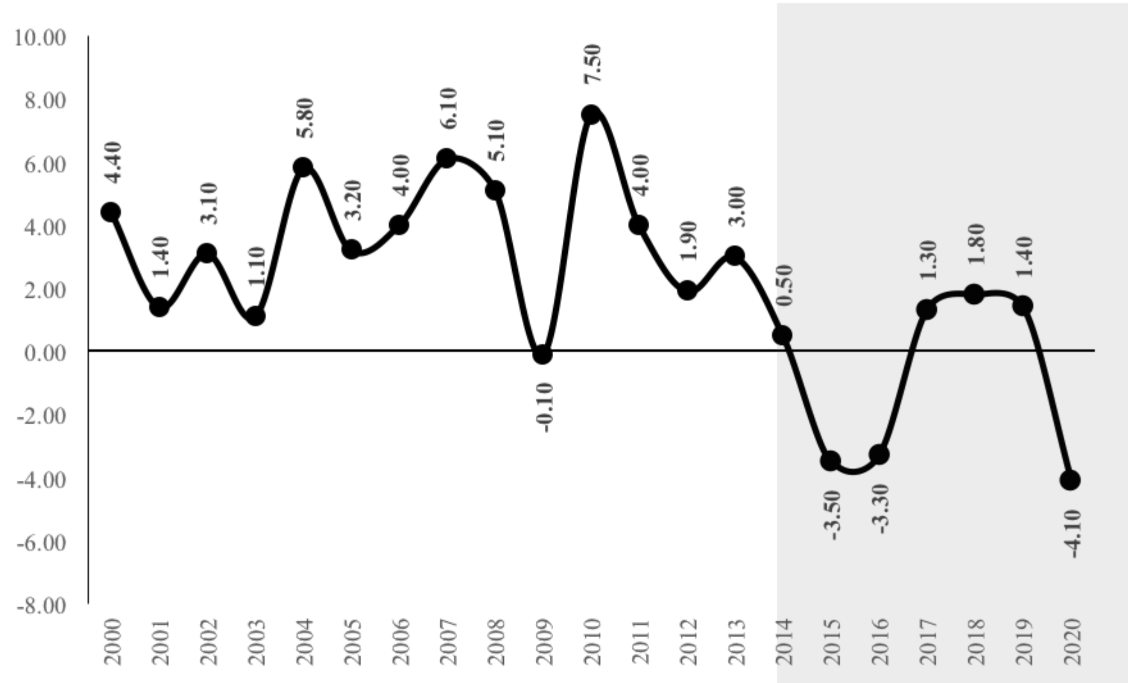
Periodization—how long the distributive model lasts and when to consider the model reversed—is important. Luiz Inácio Lula da Silva was president from 2003 to 2010 and Dilma Rousseff from 2011 to 2014. She was reelected at the end of 2014 and should have governed until 2018. Although formally president until May 2016, when she was officially ousted, her second term never took off. Already in 2013, huge protests were largely taken over and maneuvered by the oligarchies; in 2014 the country faced political paralysis, with Operation Car Wash dominating the entire debate; Globo and other commercial media contributed to a hysterical antigovernment campaign. In economic terms, some of the country's largest companies, such as Petrobrás and Odebrecht, were brought to a standstill by the Operation, resulting in a profound impact on the economy. Furthermore, the atmosphere was one of electoral war. Dilma was in government but not in power.

With the paralyzing political offensive against the government from 2014 on, even before the formal ousting of Dilma, the distributive model was reversed. It was rightly said at the time regarding the 2014 elections, “If Dilma wins, she won’t govern.” In 2015 Dilma had to put a banker, Joaquim Levy, at the helm of the economy. With this scenario, it seems reasonable to adopt the World Bank’s periodization, which refers to the period from 2003 to 2013 as the “golden decade” of the Brazilian economy. A significant convergence of factors points to the adoption of this more realistic periodization, from 2003 to 2013 for the distributive model and from 2014 to 2019 for the concentrationist model. The year 2020, with the impact of the COVID-19 pandemic and in a different conjuncture, will only be superficially covered despite the first quarter’s confirming our arguments.

The distributive phase came to an end in 2013. As the process of the coup developed, undermining the government until 2016, when Dilma was formally removed, it became politically important to attribute the 2015–2016 recession to the distributive policy itself. The forces behind the coup thus presented themselves as the saviors, standing against the model that “ruined the public accounts.” The truth is that the second Dilma administration took place during a reversion of economic policy, and the catastrophic years of 2015 and 2016, with a 7 percent drop in the GDP, were followed by economic paralysis lasting until the first quarter of 2020. The period between 2014 and 2019 thus belonged to another dynamics called “austerity,” a misleading term in that it conveys seriousness and responsibility but fails to say austerity for whom. In any case, rather than who was formally in power and who was to blame, it is essential to know which model was operating, the distributive or the wealth-concentrating one. The statistical series we analyze ends in 2019, this year included, since the references changed with the pandemic. Nevertheless, the first quarter of 2020, with a 1.5 percent drop in the GDP, was significant given that the economic impact of the pandemic was still unfelt. Two years into the pandemic, the downward trend of the economy continued, even though the Bolsonaro administration failed to address the health issues in the name of prioritizing the economy. The result is that in 2022 we still face a disaster in both areas.

In the following pages, we will comment on some of the main indicators, using as a reference the two decades from 2000 to 2019. The general idea is to provide data from official sources. The use of primary sources of information is vital, considering the political polarization we are living in and the suspicions it gives rise to. To facilitate the interpretation process, we will present each indicator in turn.

Figure 1. Percentage variation in the gross domestic product, year over year (IBGE, 2020).



The Gross Domestic Product

Taking as a reference the years of distributive policy from 2003 to 2013, the average annual increase in GDP was 3.8 percent—quite high considering the international crisis of 2008 and its impact on the curve's regularity. The year 2013 still presents a significant increase, but the 2012–2013 period reflects the tension arising from the government's attempt to reduce the basic interest rate, the Selic, and the interest rates for individual and legal entities, which triggered an uprising of the financial corporations against the government. The World Bank Group's' (2016: xxi) assessment of the period is significant:

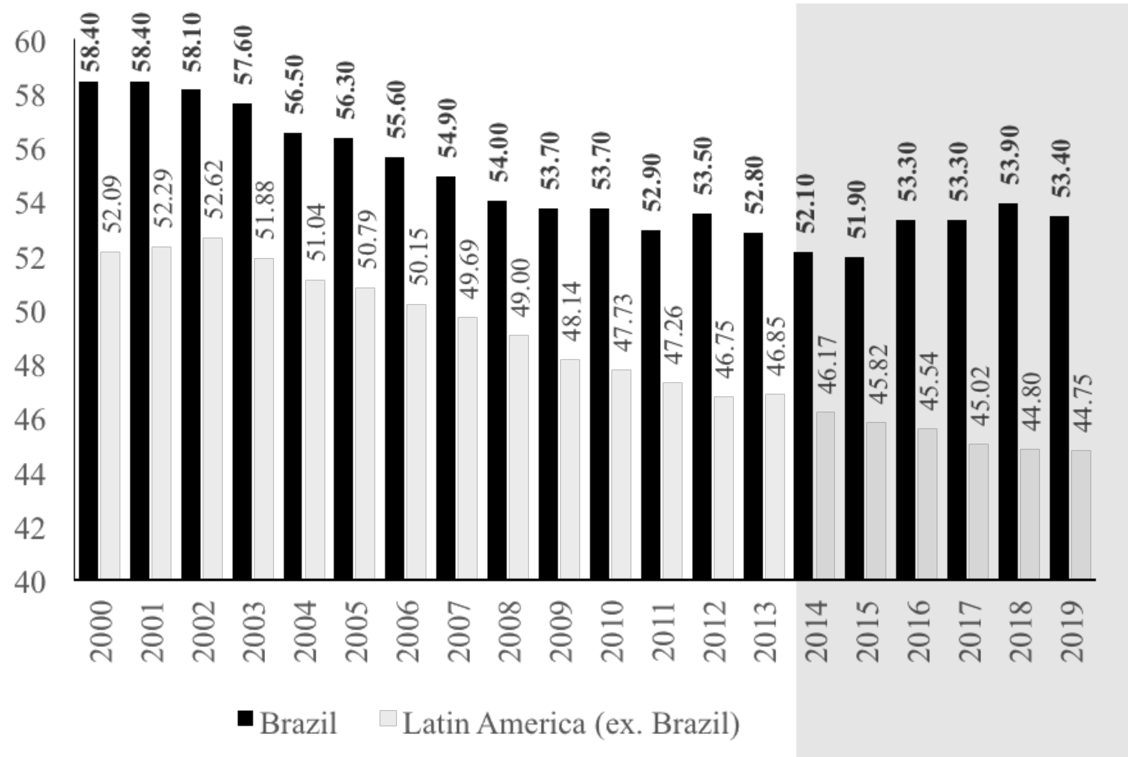
> *Until the late 1990s, little progress was made in reducing income inequalities in Brazil, but in the past decade Brazil's socioeconomic progress has been remarkable and internationally noted. From 2003, the country has become recognized for its success in reducing poverty and inequality and its ability to create jobs. Innovative and effective policies to reduce poverty and ensure the inclusion of previously excluded groups have lifted millions of people out of poverty.*

Bringing the poor out of poverty boosted economic growth. The process was sustained for 11 years with a balanced public budget. An entire decade of sustained development indicates that the model was structurally coherent.

From 2014 to 2019 there were six years of economic paralysis, with government announcing each new year that the following one would be the turning point. In reality, the average for the period was a negative –0.4 percent per year. Even if we leave out

2015 and 2016, the last three years, from 2017 to 2019, stabilized at around 1 percent. If we subtract the 0.8 percent populational growth, the economy was actually stagnant. The first quarter of 2020 (the last period before the pandemic) still showed a 1.5 percent drop in the quarterly GDP. The GDP drop in 2020 was –4.1 percent but largely due to the pandemic.

Figure 2. Income inequality (the Gini coefficient) (World Bank Group, 2021).



Income Inequality

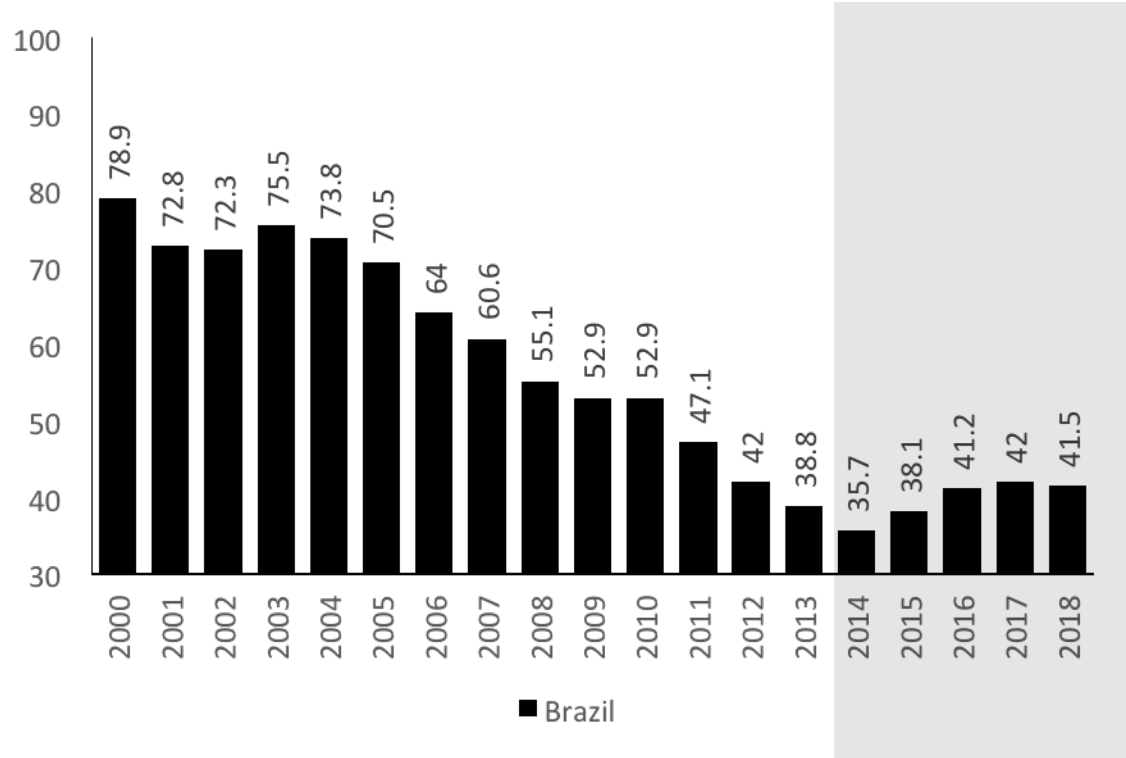
Brazil is one of the most unequal countries in the world, standing out even in Latin America, which is the world's most unequal subcontinent. The Gini coefficient is used internationally to measure inequality. Brazil went from 57.6 in 2003 to 52.8 in 2013, a substantial drop in income inequality (Figure 2). Nevertheless, this still leaves it among the 10 most unequal countries in the world. As a reference, the United States is becoming increasingly unequal, and its Gini index is getting worse, already above 40, while the more egalitarian European countries have Gini indexes not far from 30. South Africa, with its apartheid legacy, has a Gini of approximately 60. Wealth inequality, not shown in this graph, is incomparably worse, near 80. In Brazil, six people hold more accumulated wealth than the poorer half of the country.

In the distributive phase, Brazil's main characteristic is that the income of all segments of the population increased, but this happened faster for the poor. In terms of wealth, however, the rich, unlike those with low income, do not have to spend all they earn and so transform the surplus into financial investments. For big fortunes, this generates high return rates, and the larger the fortune, the more financial profits and dividends are generated. This is what is called the "financial snowball effect." The fortune of the banker Joseph Safra, for instance, went from US$15 to US$19 billion in 12 months, between 2018 and 2019, according to the *Forbes* (2020) study on Brazil's billionaires. The fortunes of the 206 billionaires grew by US$46 billion in a stagnant economy, extracting from the productive economy the equivalent of approximately eight times the US$6 billion cost of the Bolsa Familia, which reached about 13 million families.

What matters to us in this graph is the reversion in the tendency: until 2013, inequality was dropping; starting in 2014, it started rising again. There is no mystery to this dynamic: the PMDB's Bridge to the Future program and successive measures such as Constitutional Amendment 95/2016, the "expenditure ceiling," meant austerity for the poor and an increase in wealth for the rich. This is one of the main characteristics of the model reversion. The enemy that the economic policy of the authors of the coup confronted was precisely the distributive dimension. Austerity consisted in transferring resources to the rich while resorting to the false and simplified justification that 'the poor consume while the rich invest."

There is a significant connection to Figure 1 showing the decrease in growth: with enough income, the majority of the population will consume, generating a market for companies that can then increase sales and employment, in turn producing revenue for the state in the form of taxes on consumption and productive activities and boosting the economy as a whole. When income is highly concentrated, the result is an increase in financial profits, mainly coming from financial rather than productive investments. The statement of a businessman to the newspaper *O Estado de São Paulo*, in 2020, is significant: *"It is, in fact, cheaper to hire now, but why hire if there is no one to sell to?"* On the eve of the pandemic, companies in Brazil were working at 70 percent capacity. At the top of the wealth pyramid, little is consumed and little is invested in production, compared with the resources extracted. This is what has been called "extractive capitalism."

Figure 3. Number of people (in millions) livng on less than US$5.50 a day (2011 PPP) in Brazil, four-year moving average (World Bank Group, 2021).



The Purchasing Power of the Poor

Another image of inequality focuses directly on the purchasing power of he poor, those who live on less than US$5.50 a day (Figure 3). This is the entire group of individuals living below this level, not the average; in other words, it includes those living in extreme poverty. The advances here are tremendous, since in 2003 there were 75.5 million people in this condition, whereas there were 38.8 million in 2013 and 35.7 million in 2014. Several studies describe in detail the programs that led to this historical advance, among which are the increase in the minimum wage and, of course, the redistributive programs. In 2006 there were 149 federal programs. The World Bank Group (2016: xxxiii) considers that "the best example of a well-designed policy is the *Bolsa Família* Program (PBF), a basic income program to poor families that has not only contributed in a major way to directly reduce poverty, but also improved the access of beneficiaries to basic services, such as public education and social security."

The graph covers data only up to 2017, but there are several other indicators, including the rise in childhood mortality rates, that reinforce the central fact: the reversion in the improvement of the quality of life of the poorest segments of the population. Between 2014 and 2019, the number of poor people increased by 20 percent. Austerity clearly represented an appropriation of the resources of the lower segments of society. The earnings of the middle class were also hindered: this dynamic is not shown in Figure 3 but is comprehensively addressed in data from the World Inequality Database (2021) on the 1 percent richest, the 10 percent richest, the following 40 percent (considered the middle class), and the 50 percent poorest.[1]

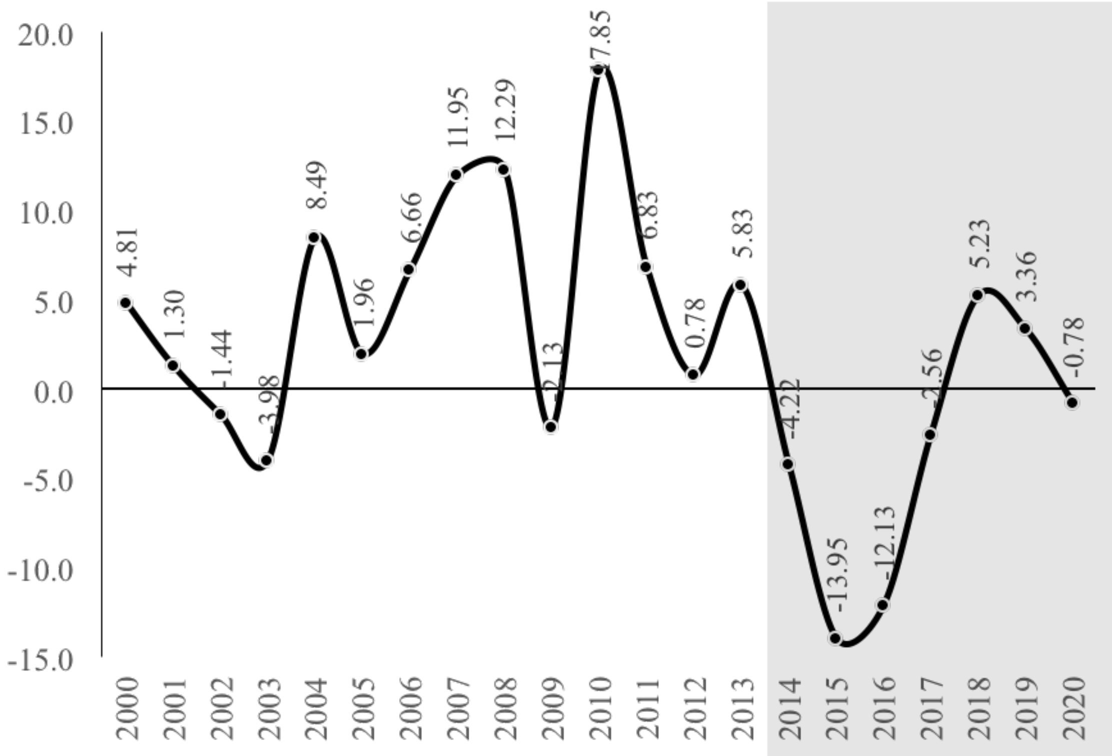
Figure 4. Household consumption, year over year (IBGE, 2020).

Household Consumption

The data on household consumption (Figure 4) follow, with little variation, the evolution of the GDP. After 2003, consumption rose significantly as a result of the distributive policies in the broad sense, particularly the increase in the minimum wage. The year 2014 was still positive but weak, and consumption dropped significantly in 2015 and 2016, stabilizing around 2 percent until 2019, well below the distributive phase. The 2015 and 2016 plunge was not fully recovered. The increase in consumption of 2017, for instance, represented a recovery of only 1.98 percent compared with the steep decline of 2016, –3.84 percent.

Household consumption is essential to the economic dynamics. Ultimately, it is the general goal of the economy, which aims to improve the well-being of the population, but it is also the main engine of the economy: if families have needs but not the means to satisfy them, companies will reduce their production rhythm for lack of a market, leading in turn to a rise in unemployment and weakening the economic cycle as a whole, especially the public accounts. Both the fragile consumption and the sluggish production rhythm reduce the state's revenues, generating a deficit. Thus, the economic stagnation in terms of the GDP (Figure 1) is confirmed in the evolution of household consumption. The appropriation of more resources by the richest does not boost the economy. On the contrary.

Figure 5. Gross fixed capital formation, year over year (IBGE, 2020).

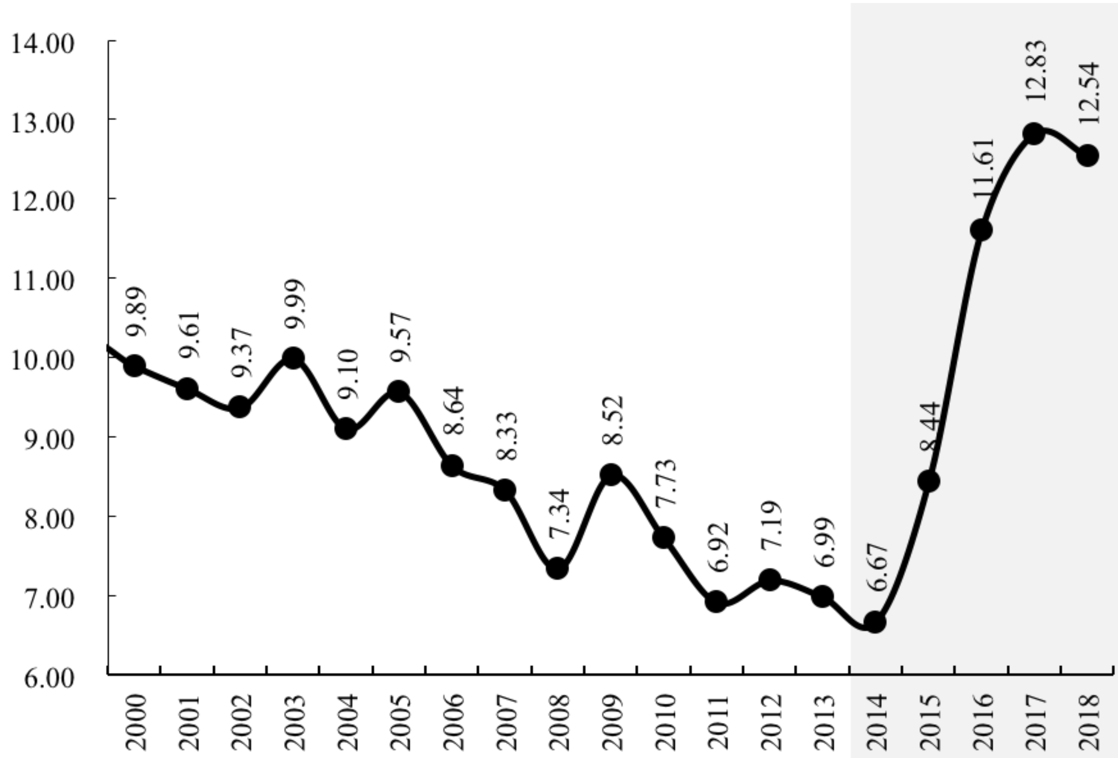


Gross Fixed Capital Formation

Gross fixed capital formation represents the country's productive investments. This is different from what people in general and particularly banks call "investments," which include any and all speculative activities using financial papers. The various financial products are traded in incomparably larger amounts in the markets, in particular with high-frequency trading, than in their effective use to increase the country's productive capacity. Technically, we are speaking not of investments but specifically of financial investments. *The Economist* distinguishes productive investments and speculative investments, but speculators generally prefer calling themselves investors. In French, the difference between *investissements* and *placements financiers* is a clear one. The difference is crucial because, while productive investments generate development, financial investments extract resources from the real economy in what is known as "rentism."

Essentially, after a tendency to drop until 2003, rates of productive investment continued not only positive but relatively high. The 2011 and 2012 reduction was linked to the government struggle to harness soaring interest rates. The general trend confirms that investment depends not solely on "trust" but particularly on the high demand for goods and services, both from families with more purchasing power and from the state with more investment in infrastructure and social policies. This aggregate demand is essential for the dynamics of the system.

Figure 6. Unemployment rate (percentage of the workforce) (World Bank Group, 2021).



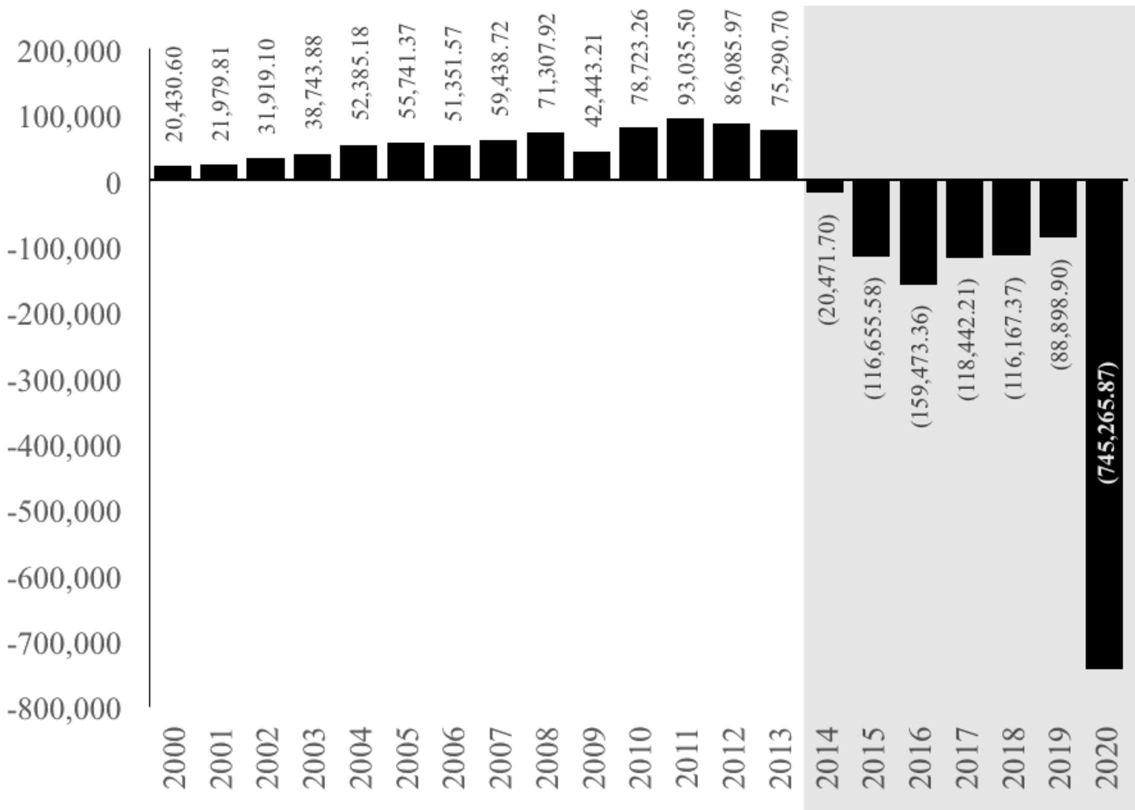
The Unemployment Rate

The unemployment rate is one of the main indicators of the evolution of the economy. It was 9.99 percent in 2003 and dropped to 6.99 percent in 2013 and 6.67 percent in 2014 (Figure 6). From 2015 on, unemployment escalated, rising to 13 percent in 2017. Since then, including in 2019 (not shown), it has varied between 12 percent and 13 percent, increasing to 14.5 percent in 2021, already linked to the pandemic but growing on top on the previous negative trend. Once again, the numbers are coherent: the years of growth in GDP, consumption, and investments generated more jobs, and the fallback resulting from austerity generated high unemployment rates. With the pandemic, the process visibly worsened. We will not analyze this period here, but over a year into the pandemic, with unemployment reaching 14.2 percent, we can assert that with public resources destined essentially for banks instead of the population (the extremely limited "emergency aid"), the recession effect can only increase.

An aggravating factor not shown in Figure 6 is the composition of employment and unemployment: while in the distributive phase 18 million formal jobs were generated, in the austerity phase formal employment dropped significantly. This process was counterbalanced only to a small degree by the growing informal sector, with the uberization of work and other forms of survival jobs. According to the Instituto Brasileiro de Geografía e Estatística (IBGE. 2019), wages in the informal sector corresponded to half the earnings of formal jobs in the private sector. As of 2019, 105 million people were part of the workforce, 40 million of them in the informal sector. If we add the 13 million unemployed people (open unemployment), this amounts to 53 million—in other words, half the workforce. The 33 million formal private jobs represented only 31 percent of the workforce.

The underuse of our work capacity in Brazil is featured by the IBGE as one of the country's key issues. This is a structural deformation of the economy and the country's social organization. The lack of opportunities, especially for young people, is dramatic. This underuse of capacity is particularly absurd if we consider that we have one of the largest areas of idle or underused land in the world and that we are in need of so many things in basic sanitation and urban maintenance, among other things. These are all opportunities that we are not making use of and that might have multiplier effects in terms of development.

Figure 7. Central government primary balance (R$ millions) (Ministério da Fazenda, 2021).



The Central Government Primary Balance

One of the main justifications for the coup was that the distributive and inclusive policy ruined the public accounts. Considering that very few people consult the actual Treasury statistics and the commercial press rarely presents such data, it was easy to sell a narrative. Information concerning the public accounts is nebulous to the immense majority of the population, and this opened the way for a farce to gain ground, especially with an entire generation of economists educated in Chicago advancing views that were simplistic and technically wrong. Figure 7 shows the so-called central government primary balance. We present the figures below in current reais, as in the original Central Bank statistics. With inflation under 5% at the time, the proportions remain clear. The layperson can correlate this with a family budget: the R$38.7 billion in surplus referent to 2003 corresponds, in a family budget, to what is left at the end of the month before paying interest on existing debt. In other words, for government, after paying for the public administration, investments in health, education, security, infrastructure, etc., including distributive policies like the Bolsa Familia, there are still R$38.7 billion left. Between 2003 and 2013 there was not a single year of deficit, while the transition year of 2014 presented only a small deficit of R$20 billion, less than 0.5 percent of the GDP.

As a whole, the distributive phase had an average surplus of R$64 billion, and this in the context of many investments (considered "expenses" by the groups currently in power) in social policies and infrastructure. However, starting in 2015, the deficit skyrocketed and remained at high levels until 2019. We will not focus on the 2020 accounts, which reflected the combination of the deficit-generating austerity policies with the additional costs of the pandemic, making the numbers much worse. Even so, the radical contrast between the two models is impressive, since the coup was largely justified by the mishandling of the public accounts. With the current austerity phase, all years are in the red and the average deficit is R$103 billion against an average surplus of R$64 billion in the distributive phase.

The reasons are clear: stimulating consumption in the lower economic strata ("mass consumption") caused consumption itself to generate revenues for the state because the consumption tax is high. Companies had people to sell to, which, as we have seen, reduced unemployment, partially relieving the social security system. The fast-paced rhythm of productive companies and commerce also generated more revenue for the state. In other words, in terms of the state's functioning in its activities—independently of the debt—the accounts closed in the black when economic activity was stimulated, and in the Brazilian case the main stimulus was not exports but household consumption.

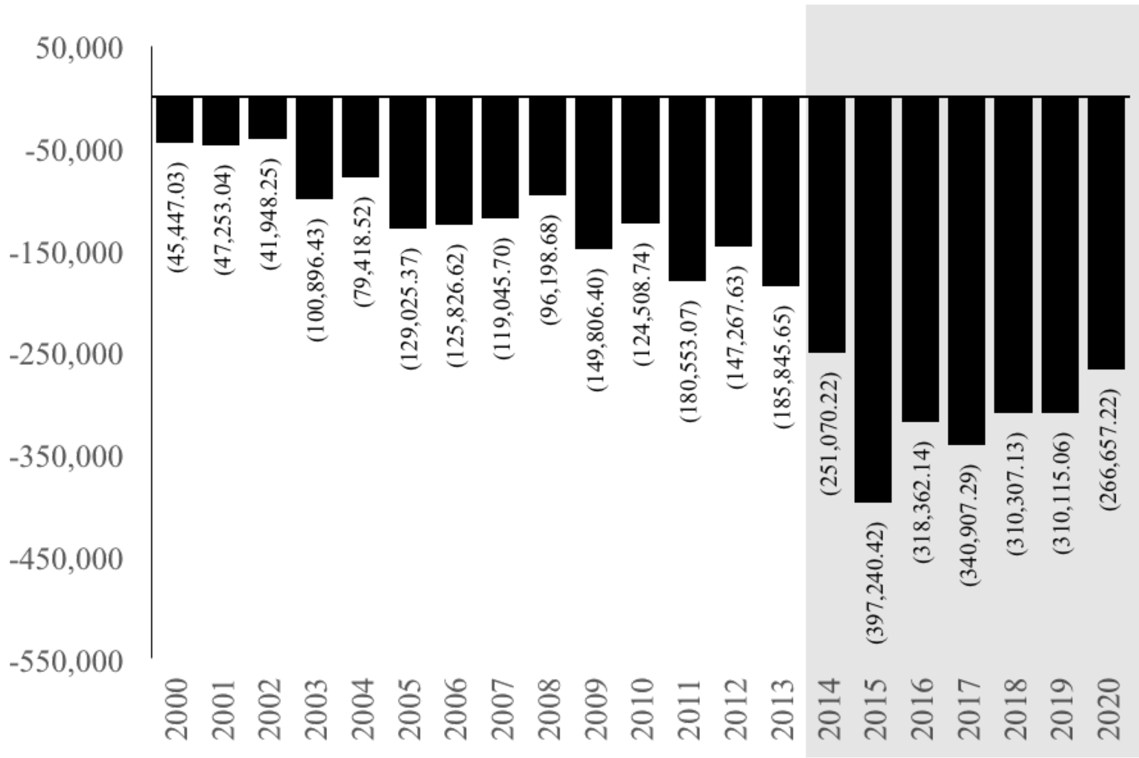
As the attacks on what was considered "spending" increased, the austerity-oriented government did in fact "spend" less, but it did so by reducing the purchasing power of families, which slowed the entire economy and ended up reducing state revenues, generating the paradox of a state that spent less and generated a larger deficit. 'Primary' fiscal balance should be achieved by stimulating inflows, not by reducing outflows. The result of the austerity model adopted was that neither the well-being of families nor the primary fiscal balance was achieved.

This understanding is found even in the analyses of the *Financial Times* (April 4, 2020):

> *Radical reforms—reversing the prevailing policy direction of the last four decades—will need to be put on the table. Governments will have to accept a more active role in the economy. They must see public services as investments rather than liabilities and look for ways to make labor markets less insecure. Redistribution will again be on the agenda; the privileges of the elderly and wealthy in question. Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix.*

The "prevailing policy direction of the last four decades" involved precisely the neoliberal phase. The economic policy currently adopted in Brazil reflects outdated views but also the interests of corporate finance.

Figure 8. Nominal interest (R$ millons) (Ministério da Fazenda 2021)



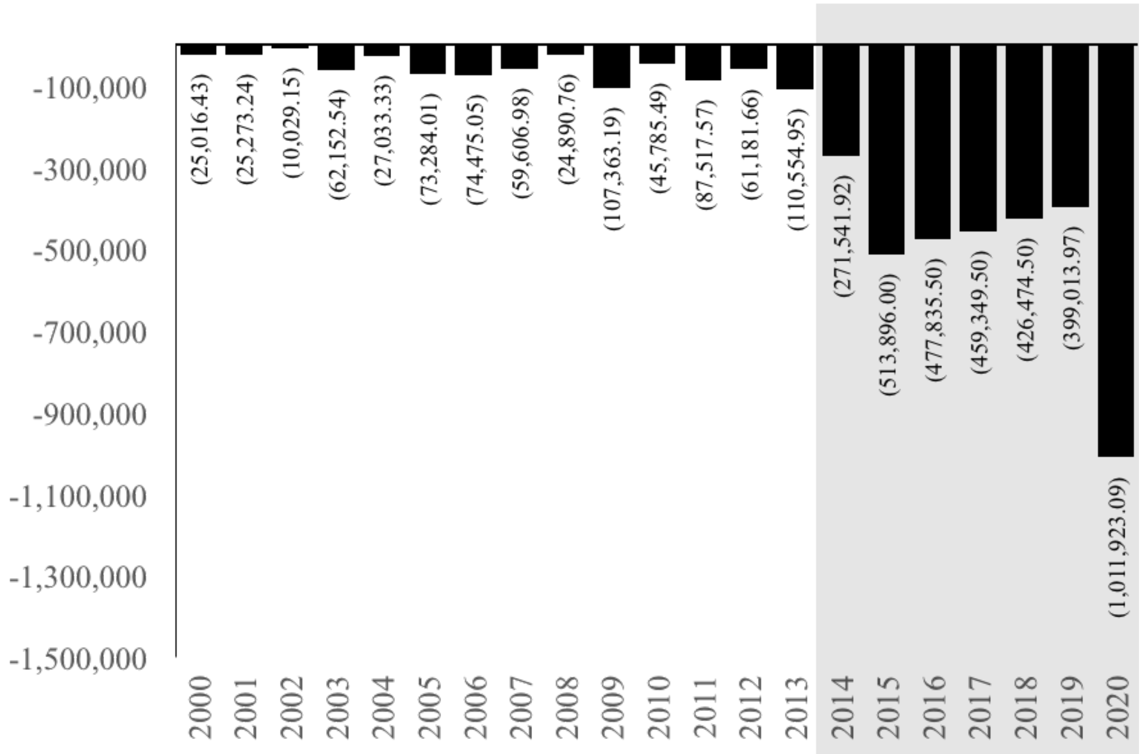
Nominal Interest

Nominal interest—the interest that the government transfers to the private sector (banks, funds, large financial investors) instead of investing in health, education, security, infrastructure, and the like—is interest on the public debt. This is where the actual deficit is generated, and all the figures are in the negative every year in both phases. The amounts are very high: R$130 billion on average during the distributive phase and R$321 billion on average in the current phase, in which political power is essentially controlled by groups connected to financial interests, if not by bankers, interested in taking over more public resources. Essentially, the drain of resources from our taxes transferred to private financial groups represented about four times the Bolsa Familia during the distributive phase and 10 times it in the current phase. In 2019, R$310 billion were transferred, despite the reduction of the Selic rate: while the rate fell, it applied to a much larger amount because of the accumulation of unpaid interest. The drain was worsened, of course, by the impact of the pandemic. What effectively had taken a toll on the public accounts was not the distributive policies and social investments but the generosity toward financial investors who earned without producing.

It is important to understand the structural basis of the state debt in Brazil, which began in 1995 with the creation of the Selic rate. Investing in treasury bonds paid, in 1996, an astronomical interest rate of around 25 percent per year, and with a low inflation rate. In the rest of the world this rate, which offers security and liquidity, rarely exceeded 1 percent per year. This was, of course, a gigantic gift to the richest groups and speculators with resources to invest, causing criticism from economists such as Luiz

Gonzaga Belluzzo and many others. This transfer of resources was preposterous and counterproductive with regard to the economy as a whole. It burdened all the administrations from 1996 on and opened the way for a scandalous increase in the profits of banks. In 2020, public debt service was slightly reduced, to R$266 billion, but the reduction in the Selic rate was offset by the constitutional amendment that allowed, in the name of fighting the pandemic, the maintenance of and even an increase in transfers to banks. The state, in Brazil, was being bled by financial interests.

Figure 9. The central government fiscal balance (R$ millions) (Ministério da Fazenda, 2021).

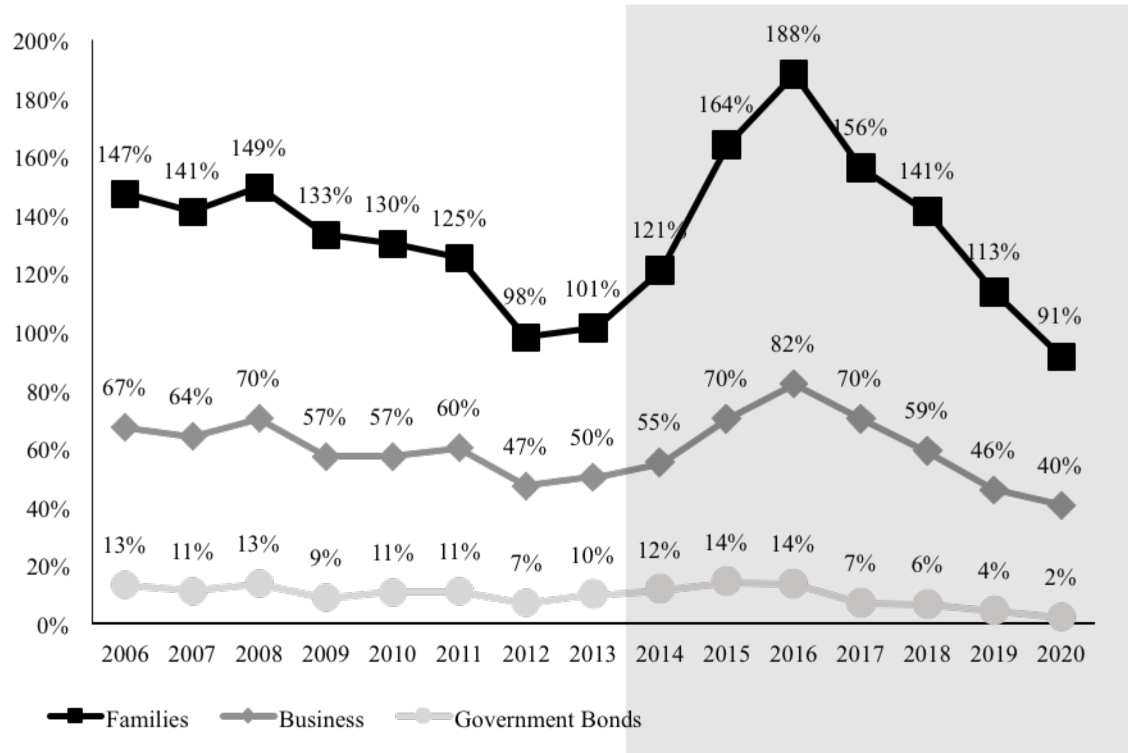


The Central Government Fiscal Balance

Figure 9, the third of our graphs of public accounts, simply presents the final result in terms of the deficit generated. Going back to the image of the family, while Figure 7 represents the situation at the end of the month after paying the bills but without counting interest, we now have the final balance, the size of the hole after paying the interest on the debt. Every year is in the red, from 2003 to 2019, because every government has maintained interest payments and the unpaid interest has increased the debt stock, generating more interest—something every indebted person is familiar with. The difference between the distributive phase and the austerity phase is in the amounts. In the distributive phase from 2003 to 2013, the deficit in Brazil's public accounts (combining the primary result and the nominal interest) averaged R$67 billion; in the so-called austerity phase, justified in the name of balancing public accounts, the average deficit was R$424 billion, six times higher. There was a deficit of nearly R$400 billion at the end of 2019, before any impact of the pandemic, and this after several years of the Bridge to the Future, the expenditure ceiling, the dismantling of labor rights, the blocking of social security expansion, the privatizations, and other abuses. The public accounts were ruined long before the pandemic, and in 2020 the situation became even worse.

The drain on public resources largely paralyzed the economy, since the state made up about a third of the GDP. With its resources being taken over by financial groups, the state's investment capacity (social policies and infrastructure) was reduced, without a corresponding increase in productive investment from the private sector. Financial rentism sterilized public resources and paralyzed the economy. With the interests in the private sector of the economy draining the capacity for household consumption and production financing, the situation only grew worse.

Figure 10. Interest rates (for families and businesses, ANEFAC, 2021; for government bonds, Banco Central de Brasil, 2021).



Interest Rates

Interest rates in Brazil are an aberration; they reflect generalized loan-sharking. In Figure 10 the average rate for individuals is well above 100 percent, with a slight drop in the years 2012 and 2013, when Dilma tried to reduce them, and a steep rise once again with the reversal of the economic policies. FIGURE 10 ABOUT HERE The interest rates on credit for individuals in Europe rarely exceed the annual 5 percent. In general, the order of magnitude in Brazil is almost 100 percent, a scale that astonishes economists worldwide. Any international averages would be nearly invisible, touching the bottom limit. The silence of the media, economists, and consultants of the financial groups was understandable, albeit shameful. Absurd interest rates had been a constant since the 1990s. Article 192 of the 1988 Constitution, defining usury as a crime and limiting interest rates to 12 percent plus inflation, was never legally regulated and was finally eliminated by an amendment as a result of the pressure of banks and other financial groups. The resulting debt-based appropriation of the social surplus deeply changed the system.

The widespread loan-sharking by large banks, including public ones (which also pay dividends to private shareholders), hits the mass of the population particularly hard. According to the Central Bank (2015: 11):

> *The lowest income group of borrowers, with up to three minimum wages (3SM), became the most representative in number of borrowers and the second-largest in credit volume. Of the total 56 million borrowers in 2014, 34 million were in the income group of up to three minimum wages. The importance of this segment demands special attention to indebtedness, income commitment, and default indicators not only out of concern for the stability of the financial system but also out of concern for the financial health of citizens. The group of borrowers up to three minimum wages showed the highest percentage of income commitment (ratio between debt service and income), reaching 24 percent on average. It is worth noting that 13.2 million borrowers in this segment have more than 50 percent of their income committed to debt service.*

In 2018, we find the following laconic comment from the same financial report: "We need to move toward a closer, more active and constructive dialogue among Brazilians about the functioning of their financial system" (Central Bank, 2018: 41). Taking the year 2016 as a reference, *O Estado de São Paulo* (2016), consulting with several financiers, estimated the financial drain on the private sector, combining what is extracted from households and businesses, at R$1 trillion, at the time 16 percent of the GDP (see Dowbor, 2019, for details). This represents an enormous sterilization of the country's productive capacity. Data from the Credit Protection Service in June 2020 show that 60.9 million Brazilians, equivalent to 38.7 percent of the adult population of the country, were in arrears. People who could not pay their debts naturally found it difficult to expand their consumption, thus holding back the economy at the bottom. Many could not even pay their water and electricity bills. The pandemic only made the situation more dramatic.

It is essential to understand this increase in the appropriation of social surplus through household debt. Wage exploitation is still important, but to exploit an employee the entrepreneur needs at least to guarantee him a job. In the case of indebtedness, for example, with the use of credit cards (interest rates and fees) or installment plans, the entire population is affected, including the 40 million informal workers and the 13 million unemployed. In this country of 214 million inhabitants, we have only 33 million formal employees in the private sector, besides 11 million public employees. Exploitation by financial mechanisms reaches practically everyone, and in particular those who earn up to three minimum wages, as the Central Bank points out. This increases inequality and drastically reduces the power of distributive policies to boost the economy. The situation is particularly absurd given that companies are working at only 70 percent of their capacity. The money that goes to financial groups is not converted into demand for production companies, and this aggravates deindustrialization. In Michael Hudson's (2021) words: *"Making economic gains financially, primarily by debt leverage, far outstrips making profits by hiring employees to produce goods and services"* (Hudson, 2021; Dowbor, 2021).

Figure 11. Number of billionaires in Brazil (*Forbes, 2020).*

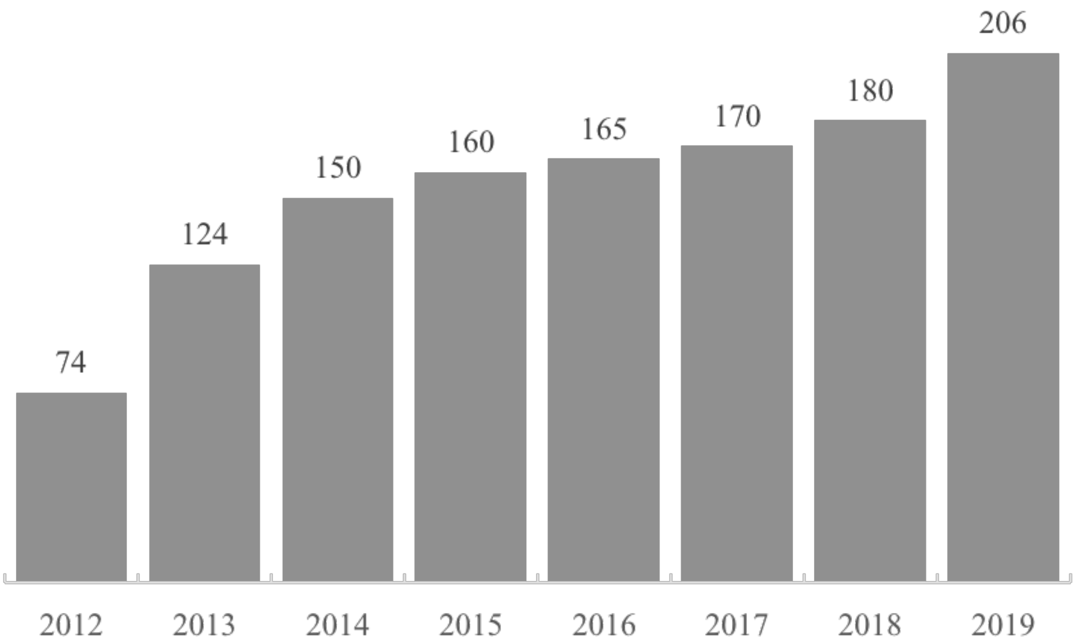
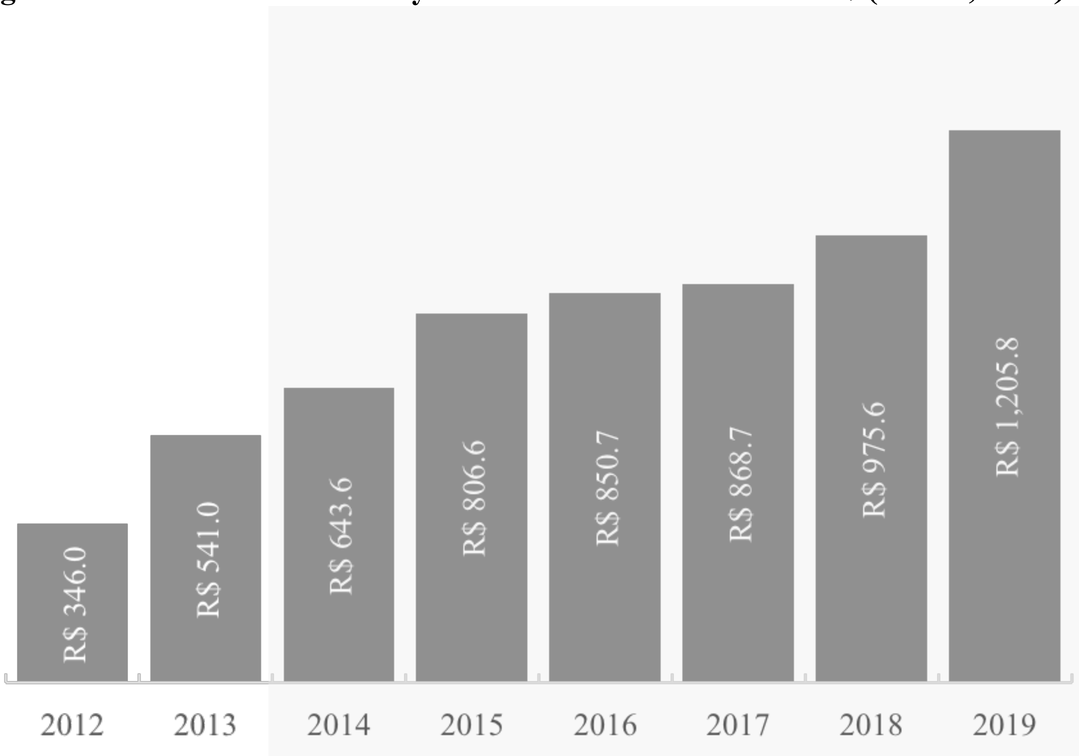


Figure 12. Value of assets held by the billionaires - Billions of R$ (*Forbes, 2020.)*

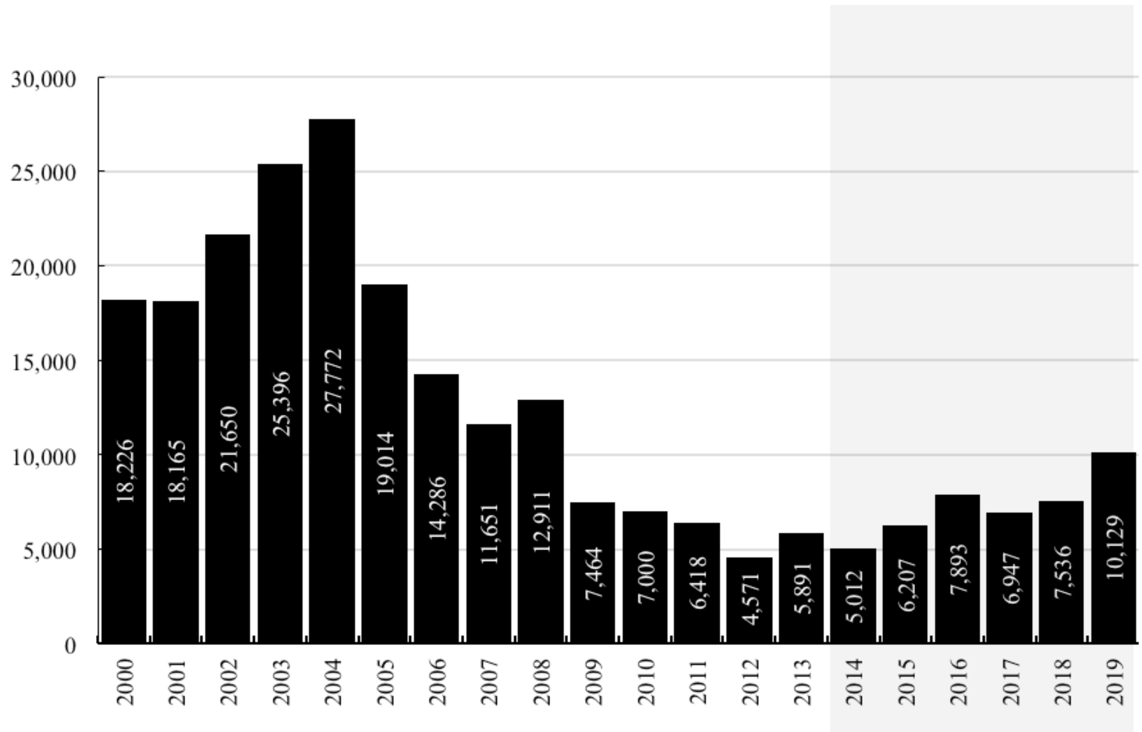


Number of Billionaires

While, on the one hand, households and production companies were deep in debt, hindering their capacity to consume and produce, on the other hand financial profits, extracted mainly through very high interest rates (in banks and credit cards) and dividends, increased exponentially (Figure 11).

In 2012, Brazil had 74 billionaires, with accumulated fortunes of R$346 billion. In 2019, the number of billionaires rose to 206, with accumulated fortunes of R$1.2 trillion, while the economy, as we have seen, was paralyzed. Between 2018 and 2019 alone, as we have mentioned above, these fortunes increased by R$230 billion, equivalent to eight times the Bolsa Familia. This increase in fortunes in the face of a stalled economy represents extractive capitalism and is consistent with the fall in household consumption and gross fixed capital formation seen in the previous graphs. At the same time, profits and dividends distributed in Brazil have been tax-exempt since 1995. What we have is a systemically dysfunctional model.

Figure 13. Amazon deforestation rate (km^2) (INPE/PRODES, 2019)



Deforestation of the Amazon

We have added here a graph on the deforestation of the Amazon, since today the environmental dimension needs to be part of any economic analysis. The Amazon deforestation rate rose from 2000 to 2004, when it reached a tragic 28,000 square kilometers, an area the size of Belgium (Figure 12). With the implementation of environmental protection policies and in particular the renegotiations with the commodity traders, national and international large commercial and financial groups, deforestation rates systematically decreased, stabilizing at around 5,000 square kilometers in the years 2012 and 2013—still catastrophic but a gigantic advance. From 2015 on, with the erosion of the state's controlling capacity and often because of connivance with criminal activities, deforestation started to rise again and literally explodes in the most recent phase, with the federal government openly inciting invasion and disregard for the law.

That "we need the land to produce" is untrue: Brazil has 225 million hectares of land available for agriculture, with water, and effectively occupies, considering both temporary and permanent crops, only 63 million hectares according to the 2017 agricultural census. In all, approximately 160 million hectares are idle or underused with extensive livestock farming. This is five times the territory of Italy. The underuse of land in Brazil is gigantic. The country is the largest reserve of idle agricultural land in the world, next to the African savannas.

The political power behind the land invasions constitutes a convergence of interests: logging companies interested in exporting hardwood; farmers intent on planting soybeans on land already deforested and fertilized with ashes from burning the forest down; and extensive cattle ranching (less than one animal per hectare) on land partially sterilized by monoculture, excessive use of chemicals, and erosion. An "arc of fire," supported by a powerful ruralist group in Congress and state governments, was formed from Pará to Acre. Since it sells commodities, the group has strong ties with giant financial traders, mostly based in Switzerland. The economic interests of the commodity producers converge with the international groups of traders that finance and commercialize these products, and political representatives elected with this same money guarantee the absence of regulation. One can no longer separate national and international, economic and political interests.

The deforestation of the Amazon generates a limited amount of foreign exchange, pays few taxes along with all primary goods, dramatically damages the environment, and contributes to the terrible image of Brazilian products in international markets. These actions, aimed at short-term profit and the pursuit of advantage, are decapitalizing the country. The demagogic attempt to associate the destruction of the Amazon with a nationalistic, if not patriotic, vision is simply shameful.

Conclusion

The set of indicators presented above clearly shows a reversal of the model since 2014. Two arguments stand out. The first one, widely supported by the authors of the coup, is that the success of the distributive phase of the economy, the so-called golden decade, from 2003 to 2013, was caused by favorable prices in the commodities market and the resulting gains in exports. This argument cannot be sustained. As we have seen, exports account for 10 percent of Brazil's GDP. The dynamism of the economy depends on the domestic market. This was made apparent by the ease with which Brazil handled the 2008 financial crisis that so seriously affected international trade. The World Bank itself emphatically rebuts the argument: "Some Brazilians are now asking whether the gains of the past decade might have been an illusion, created by the commodity boom, but unsustainable in today's less forgiving international environment. The answer provided in this Systematic Country Diagnostic (SCD) is a qualified 'no'" (xxii). The distributive phase fostered development essentially with domestic resources, turning gains from exports into foreign exchange reserves that amounted to as much as US$380 billion in 2013. Brazil went from debtor to lender with the International Monetary Fund. It was not dollars that caused the impressive advances of the distributive phase.

The positive movement resulted essentially from internal transformations of the economy. The mechanisms are well known. The large transfers during the distributive phase generated a growing demand. For a country with an underutilized industrial park and large idle capacity, this allowed promotion of production and employment without causing inflation. The expansion of consumption and production caused, in turn, more revenue for the state not by some monetary magic trick but because the injections into the economy made by public policies enhanced the preexisting capacities for consumption and production. Increasing state revenue allowed the expansion of government spending on social policies (education, health, public safety, etc.) and investment in infrastructure. Social policies improved families' well-being, ensuring access to common goods and services, while investment in infrastructure improved productivity. The circle had become sustainable.

The breaking of this virtuous circle is a demonstration of the financialization of the economy—how the new forms of appropriation of the social surplus by an unproductive financial market curbed aggregate demand, employment, production, and government investment. The narrative being sold in the country is that the current crisis was caused by populist excessive "spending" with social policies. It comes with a caricature representation of the state as being forced to operate like a good housewife who won't go over her budget, painting the coup and the economic and political reversion as "austerity" and "fiscal responsibility" aimed primarily at a balanced budget. The fact that the president at the time was a woman was obviously part of the "good housewife" narrative.

To counter this narrative, there is nothing better than facts. By the first quarter of 2020, before the COVID-19 impact, we were in the seventh consecutive year of economic paralysis, while financial gains were booming and the cuts in social policies resulted in the richest portion of society's getting richer. With the pandemic, the large amount of resources employed to face it (about 16 percent of the GDP) ended up mostly in the hands of banks rather than in the hands of families and businesses. The productive capitalism we once had, which was open to criticism for exploiting workers but created goods, jobs, and taxes, was mostly replaced by powerful rentiers (in both financial and political terms) with wide international connections. It is the rule of interests and dividends that in Brazil has increased to grotesque dimensions. What really works is not pleasing "the markets" but directing the economy toward families' well-being. Brazil is not a poor country, and its problem is not the lack of resources but, essentially, the lack of political and social organization. Confronting the two models, distribution and concentration, clearly points to a more inclusive economy.

Notes

1. For comments, see https://dowbor.org/2020/04/thomas-piketty-capital-et-ideologie-seuil-paris-2019-1200-p.html/.

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