

# Economics and Business Review

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phone +48 61 854 31 54, +48 61 854 31 55  
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# Inequality and politics in Brazil: Bolsa Familia and beyond<sup>1</sup>

*Ladislau Dowbor*<sup>2</sup>

**Abstract:** The Bolsa Familia program of money transfers to the roughly 50 million poor at the bottom of the pyramid is internationally known but its success was grounded in a much wider set of 149 programs constituting an integrated and inter-sector policy. With inequality presently soaring not only in Brazil but throughout the world the aim of this paper is to understand how inclusive and sustainable policies can work both for society and the economy and assess their performance in Brazil as an illustration of institutional change as a key approach. Equally essential is understanding the power of the global financial interests which generated the drama of 1 percent having more wealth than the other 99 percent. Both mechanisms, of inclusion and exclusion, are analyzed here, on the basis of the Brazilian experience.

**Keywords:** Bolsa Familia, inclusion, inequality, Lula da Silva.

**JEL codes:** H53.

## Introduction

The World Bank called the 2003 to 2013 inclusive policies' period in Brazil "The Golden Decade" of its development. The times of Lula and Dilma. Much of the progress attained during these years has been attributed to the Bolsa Familia program, which effectively took out of complete deprivation some 50 million people, through a very modest monthly support of roughly 25 dollars, transferred to families earning less than a quarter of the minimum salary per capita. To participate in the program families had to make sure their children were in school and in touch with basic health systems and vaccinated. The money was handed to women for the simple reason that it would be spent in a much more productive way. It was the first time a government was promoting such a large-scale transfer of resources to the bottom 25% of the population. The result was

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<sup>2</sup> Catholic University of São Paulo, R. Min. de Godoy 969, CEP 05015-001, São Paulo, Brazil, ldowbor@gmail.com, ORCID: <https://orcid.org/0000-0002-0465-6483>.

impressive. For example, considering child mortality reduction alone, during this period over 300 thousand more children lived.

The overall cost was ridiculous, 0,5% of GDP, while tax evasion by the rich cost roughly 8% of GDP. It worked. Saying that receiving money would make people work less proved to be a self-serving idiocy of the elites. On the contrary, they were stimulated and taken out of paralyzing despair. There is presently is good evidence of this as a World Bank study reports: “Regarding the unintended effects of Conditioned Cash Transfers (CCTs), recent evaluations of programs in Brazil, Chile, Honduras, Mexico, Nicaragua, and the Philippines fail to demonstrate reductions in the labor market participation of beneficiaries relative to nonbeneficiaries or increases in the consumption of alcohol or tobacco or in gambling” (World Bank, 2016b, p. 143).

In fact increased income at the bottom of society expanded consumption, which in turn generated more jobs and GDP growth. “The dynamics of the labor market and the expansion of social policies boosted the income of the poor”. According to World Bank estimates these two factors accounted for the bulk of the decline in inequality of approximately 80% between 2003 and 2013. Of the decline of the Gini index between these two years 41% was accounted for by labor incomes and 39% by non-labor income sources such as government transfers” (World Bank, 2016b, p. 105). Handing money over to the poor is not charity, it is sound economic and social policy.

Thus, while the Bolsa Familia program became known throughout the world it is important to understand the full social and economic effort of reaching out to the poor, comprising 149 projects when fully developed (Campello & Neri, 2013). When one is deeply deprived what little money is received certainly makes a huge difference. But organizing the program also led to the unveiling a huge set of other needs at the bottom of the pyramid, such as access to basic health services, better schooling, or even access to electricity. It also exerted a pressure on various levels of administration, civil society organizations and even businesses, leading them to look differently at their social and economic environment. In fact, the overall impact of inclusion policies reached into the economic and political spheres. When room is made for a great part of a formerly outcast population, the system moves. What is presented here is the systemic overview of how this progress was achieved and how it was broken down.

The overall approach used in this research is close to the institutional school of thought, with close reference to recent publications that reach beyond economics as an independent tool-kit, understanding development as an integral process covered by different social sciences. This includes authors such as Amartya Sen with the idea of justice, Joseph Stiglitz with the search for new rules to be adopted, Thomas Piketty and the analysis of overall social, economic and cultural transformation. An inclusive and sustainable development is set here as the goal to be reached with particular emphasis on inequality, since it is the key issue in Brazil, one of the most unequal countries in the world.

In terms of the methodology of the present study the author participated directly in several initiatives described here in what has been called participatory research. Several aspects of the social policies here described have been developed with the collaboration of graduate students at the Graduate Course of Administration Studies at the Catholic University of São Paulo. The Ministry of Social Development allowed access to all of the 149 national social development programs, both through publications, and online, with direct access to every program manager. This allowed for a regular follow-up of the projects and of the results attained. Parts of the understanding presented here result from an 18-month research project *Política Nacional de Apoio ao Desenvolvimento Local* (National Policy of Support to Local Development) which ensured direct field observation and discussions with stakeholders and project managers throughout the country, funded by SEBRAE and other non-governmental organizations (SEBRAE, 2009). Basic information on population, unemployment and similar data were taken from the national statistics agency IBGE unless controversial. More recent information, up to July 2020, concerns the reversal of inclusive policies with the present austerity measures. A few comparative remarks in the following text result from the author's experience during several years as a UN consultant in economic and social development in Africa, Asia and Latin America.

The paper initially presents the idea of economic democracy, the second section concerns the logic of economic inequality. The third section describes the measures undertaken to reduce inequality and the fourth part concerns inclusive development. The last section describes the reversal of the inclusive policies and the social and economic consequences. The conclusion aims at a more general understanding of how inclusive policies can generate both social and economic progress.

## 1. Economic democracy

Basically the starting point was to improve access to basic consumption goods not only for the poor but for most of the population. Programs like the Bolsa Familia, but more importantly systematically raising the minimum salary thus ensuring modest pensions for the rural, elderly or disabled population that had never had formal jobs (*Benefício de Prestação Continuada*), expanding access to public health services and other forms of transfer stimulated private family consumption, by far the most important motor of the economy, roughly 60% of the necessary force (Neri, Vaz, & Souza, 2013).

This in turn stimulated businesses to produce more. General family consumption, particularly among the poor, mainly results in a growing demand for simple goods, both agricultural and industrial, as well as basic services. For this kind of consumption the existing production capacity can respond rap-

idly and it did not generate inflation. Another factor which stimulated non-inflationary growth was the fact that enterprises were working at 70% of production capacity. Stronger demand during the 2003 to 2013 period also generated a great number of new or expanded small businesses reducing unemployment, which fell from 12% to 4.8% during the process. The expansion of employment—18 million formal jobs were created—in turn generated more consumption, and an overall demand-oriented stimulation of the economy (Castro, 2013; Dowbor, 2019a).

Public institutions had a key role to play in this process. Instead of claiming that a responsible government must be austere, the government invested in stimulating the economy in a bottom-up approach. This is of course how the New Deal worked in the US after the 1929 crisis, or the Welfare State in Europe during the “thirty golden years” after WWII, or in the South Korean “miracle” and the Nordic countries. The logic is simple, for each item bought in a growing consumption movement it generates taxes for the government, so-called consumption taxes. On the other hand expanded production generates more taxes on businesses and more money for the government. In accounting terms the circle is complete, the cycle works, the initial seed money comes back. Government seed-money and investment, so easily qualified as demagoguery or populism, can actually work, when adequately channeled and sustained.

In fact, and despite the shock of the 2007–2008 world crisis, the economy grew by roughly 4%, and the government faced no deficit, even presenting a modest surplus. Not because expenditures were reduced but because returns were stimulated. Austerity as it has been understood in a number of countries after the 2008 crisis consisted of reducing income of the population in general, which reduced demand, slowing down the overall economy. Of course austerity has not been for everybody, trillions of dollars or euros were distributed to banks, in the so aptly named Quantitative Easing. Banks do not stimulate the economy when businesses are unwilling to invest and businesses do not invest if people are not buying. People are obviously not buying if the banks are taking the money. Making it easy for banks has not necessarily been a solution. Actually in the Brazilian case it is the problem (Dowbor, 2020).

Once economic growth was attained, which resulted in more resources in the hands of government it was possible to expand another side of family well-being, which is access to public services, such as health, education, security. Consumption of public goods and services, as well as access to infrastructure, represent a huge part of our needs. People do not buy a share of a hospital or a school but need to have access to it in what has been called collective consumption. To give an example, in the US, where health services are dominantly private and profit oriented, the per capita cost is around 10,400 dollars per capita. In Canada, where health services are granted to all in a public universal free access system, much higher results are obtained at less than half the cost. This means families can spend on other things and see some logic in the taxes

they pay. Well oriented public policy, as so well shown by Mariana Mazzucato in her *The entrepreneurial state* (2015), certainly works.

Finally, another major contribution of government is in infrastructures, particularly in areas such as transportation, energy, communications, access to safe water, sewage and other fundamental environmental factors. Having good transportation and communication infrastructures, for example, means production costs are reduced, which is good for business. Access to public urban mass transportation has a huge impact on the family budget. It has been found that a dollar invested in sewage generates four dollars in the reduction of health care costs. All this does show up in the public budget as expenditure, or “costs”, but in economic and social terms they are investments, generating a more productive environment for business, as well as a better life for families, which is the overall objective.

This broad brush of economic understanding in Brazil is important, since Bolsa Familia and other policies did not just happen to work: the overall policy of the popular government at the time was oriented towards inclusion, and it was based both on an ethic of justice and on economic democracy. To sum up, more widely spread income generates demand, which stimulates production and jobs and both expanded consumption and production generate the necessary resources for the government to fund social policies and infrastructures. It is a virtuous circle.

## 2. The logic of inequality

Brazil is in the group of the ten most unequal countries and Latin America is the most unequal region. In income terms economists measure inequality with the so-called Gini, where we find that South Africa, recently emerging from semi-slavery, presents a Gini of around 0,60, Brazil 0,50, the US roughly 0,45, less unequal countries in the 0,30 to 0,40 brackets and Nordic countries under 0,30. Technical as they may seem these numbers are quite useful as they allow us to have a rough picture of which development models spread the benefits and which ones concentrate them in wealthy minorities. In comparative terms it allows us to understand the present difficulties in the US, where over the last decades inequality has been strongly on the rise. The Brazilian numbers, however critical, had been improving, coming down from 0,58 at the time of the military dictatorship to the 0,50 at the close of the distributive policies in 2013. Let us note that the inequality reduction trend has been reversed after 2014 up to the current year.

This concerns income that is earned every year. But in the last few decades measures concern Net Household Wealth, the accumulated riches of every family and here, thanks to figures by the Crédit Suisse bank, regular analysis and publishing by Oxfam Brasil (2017a, 2017b, 2018), and a series of in-depth studies such as Thomas Piketty’s *Capital et idéologie* (2019) or Branko Milanovic’s

*Global inequality* (2016), it is shown that the Gini in most countries is in the range of 0,80 to 0,90, a dramatic inequality to the point that we have become an overall dysfunctional society. Brazil is just a worse case in a globally unbalanced society. The basic numbers are that six families have more accumulated wealth than the bottom half of the population, 105 million. Presented differently the top 5% in wealth own more than the remaining 95%. This simply does not work.

When an Ultra High Net Wealth Individual, as he is called in statistics, invests a billion in a low-risk financial paper yielding 5% a year, he will be earning 137 thousand dollars a day. On the next day he will be earning dividends on a billion plus 137 thousand and so on, generating what has been called a financial snow-ball effect. The more you earn, the more you gain, in a progressively accelerated rhythm. This process is at the bottom of the absurd situation which gave us the 1% versus 99% drama, so widely publicized after the Wall Street protests. As presented in the Davos meetings not only do the richest 1% wield more wealth than the rest of humanity, but the richest twenty six families have more than the bottom half of the world population. They did not have to produce this wealth, money earns money for them, *pecunia pecuniam parit*, as is found in classic literature.

Well this is a free society and a free market economy so that anyone is entitled to join the feast and to buy high yielding financial papers. The problem is, of course, that most of the world population hardly manages to make the ends meet, or are drowning in debt, not to speak of analyzing what financial papers to buy to increase their wealth. The mass of the population just spends whatever earnings they manage to get while the formal ownership of what is produced goes to the financial elite.

This means that inequality is an expanding process. It is a systemic structural flaw in the modern economy. Money, the really big money, is not going into productive investment, but into financial speculation. World production of goods and services, GDP, grows around 2% and 2.5% a year, despite our impressive technological progress but investing in financial papers has generated gains around 7% to 9% in the last decades (Hennessy, 2017). Money naturally flows to where the gains are higher which means that instead in investing in production, which is painfully work-intensive, capital migrates to financial papers: less effort, more gains. Thus, capital has turned from a factor of growth to a factor of wealth extraction.

This transformation of modern capitalism has become quite transparent nowadays with in-depth contributions of Thomas Piketty, of course, but also such key economists as Joseph Stiglitz, Paul Krugman, Michael Hudson, David Harvey, Ellen Brown, François Morin, Paul Dembinski, Marjorie Kelly, François Chesnais, as well as a number of research centers such as the New Economics Foundation in the UK, Real World Economics and the Roosevelt Institute in the US, Observatoire de la Finance in Geneva and so many others. What all this reveals is that our problems are not essentially economic, but political. It is a question of governance (Dowbor, 2019b, 2020).



### 3. Facing inequality

Brazil is not a poor country. Its GDP, roughly 2 trillion dollars, makes it the 7th largest economy in the world and if we divide it by the 210 million inhabitants, we obtain a per capita of roughly 10 thousand dollars, practically the same as the world average. This means that what Brazil produced in 2019 represents almost 2,500 dollars per month per four-member family. Our present level of production could ensure a reasonably dignified and comfortable life for everyone, even with a modest reduction of inequality. Our problem is not having more but of balancing production. The challenge is not to make GDP grow faster but to focus on what is produced, for whom and with what social and environmental impact. The poor are not the problem, it is the rich. Using an American pun, people who earn millions have convinced those who earn 100 thousand that the problem is the people who earn 1 thousand. Economics should come down to earth.

Inequality is, first of all, an ethical challenge. It is difficult to find words strong enough to convey the scandal that it is to have 850 million people in the world going hungry, of whom some 150 million are children. Are they responsible for what happens to them? Kids dying from such absurd reasons as hunger or difficult access to safe water represent some five New York towers disasters a day. We know where and who they are, we know what should be done, the costs are extremely low, and yet very little is done. The “Greed is good” attitude on Wall Street is not working. Our capacity for indignation has grown very thin. The food presently produced is way over what would be needed to end hunger and 30% of it is lost through mismanagement. How can one tolerate parents not having access to basic health service to save a child?

It is a flawed system where fortunes are earned by draining productive capacity through financial speculation, while productive effort is not adequately rewarded. A simple number helps: in the environment summit in Paris in 2015, practically all nations agreed to a global effort to reduce the climate change disaster. They pledged 100 billion dollars a year to fund the necessary initiatives. The sum sounds impressive but what we have in tax havens, taking the lowest estimate by *The Economist*, based on Tax Justice Network numbers, amounted to 20 trillion dollars in 2012. This is 200 times the amount pledged in Paris. Money in tax havens represents essentially tax avoidance, corruption and criminal money laundering. Brazil is well represented: 520 billion dollars in 2012, a stock of money roughly equivalent to a third of GDP. Bolsa Familia, as seen above, represents 0.5% of GDP, about 7 billion dollars a year, and has a huge positive impact. These numbers defy good sense and basic ethics (Campello & Gentili, 2017).

Inequality is also a political and social challenge. No country manages democratic life in the context of deep inequality. The poor we have today in Brazil but also throughout the world, are not the same as a generation or two ago, when people lost in their cultural and economic poverty just thought that this

was life. Nowadays even in the most remote communities people are aware they could have a decent clinic, a reasonable school for their children and the like. Or even food and safe water. Youth, in particular, is much less prone to accept that there is a ceiling in their life and that all the marvelous things they see on the TVs existing in every corner, are for someone else.

The huge feeling of exclusion is powerful and as Elzbieta Korolczuk (2019) writes so well, inequality turns to a feeling of insecurity and fear, and these in turn lead to anger and hate. A systemic governance shift is needed and when a sickly populism takes over, in Brazil as well as in so many countries, instead of lamenting the elected demagogues, it would be better to look at the roots: our liberal democracies did work, but not for everybody, and this “everybody” means billions nowadays. The poor are not passive anymore. If our societies are to work, social and economic inclusion has to be on the front page.

And inequality, as seen above, just does not work for the economy. The world has created huge technological transformations, improved production capacity and a global fight for markets, because the problem is not to produce more, but to find people with purchasing power to pay for the products. What presidents Lula da Silva and Dilma Rousseff built in Brazil was a kind of a local New Deal, stimulating the whole economy from the bottom up and it worked but what is obviously needed is a Global New Deal, understanding economic and social inclusion as an opportunity, not a threat. In fact, progressive ideas are closing in on the Global Green New Deal vision, built on the triple bottom line: economically viable, socially fair and environmentally sustainable development. This is not rocket science, it is good sense.

#### **4. Inclusive and sustainable development**

It is important to mention that in recent history Brazil has been allowed democracy only in a few moments, as glimpses of sunshine. Getúlio Vargas suicided in 1954 amidst enormous pressures accusing him of corruption when the real problem was his defense of national industry. João Goulart was ousted in 1964 because he tried to promote a 100-dollar minimum monthly salary and a modest land redistribution. Accused of corruption, of course. The military, in collusion with the oligarchy and dominantly American transnational corporations, supported the dictatorship until democracy was restored in 1985, ending 1964–1985 years of oppression.

Brazil enjoyed a reasonably democratic regime from 1985 to 2013, when the ever-present and demanding oligarchy, basically with the same alliances, proceeded to the parliamentary coup against Dilma Rousseff, ending the already mentioned 2003–2013 Golden Decade. No corruption was found but a financial mismanagement by Dilma Rousseff was used to formally impeach her in 2016. President Lula da Silva was condemned on “circumstantial evidence” of

corruption. Two months before the 2018 election Lula was jailed, when polls showed he would easily win the presidency. Instead, as was expressively titled in an Austrian newspaper, “Brasilien hat einen Idioten gewählt”. So much for democracy. The main message to be conveyed here, is that trying to promote inclusion in Brazil is a huge endeavor.

Lula was elected at the end of 2002 and his administration started in January 2003. In June 2002 he read a widely publicized message to the nation, “Carta aos Brasileiros”, stating he would not touch the rules of the game—meaning no move against the banking system—and would be satisfied if at the end of his four years in government every Brazilian would have three meals a day. It was called *Fome Zero* (zero hunger), the first step for Bolsa Familia. It was the first time a president was elected under the formal banner of governing for the poor, without messing with the privileges of the rich. Surrealistic as it seems, it worked. He was reelected in 2006 and Dilma Rousseff was elected in 2010. These dates are important as they show that the Brazilian inclusion policy was possible because of the 1985–2016 democratic opening. The present government in Brazil, although legally elected, can hardly be considered a democracy.

Getting to the presidency was just a first step. Governing for the poor meant you had to reach out to them. Most of the roughly 60 million very poor people were below the statistical horizon, many without birth certificate or ID, living in backward regions or in huge slums around the bigger cities with seldom any postal address or street name. Lula put a banker in charge of finance, to pacify the financial cluster of power, and started to build the network of contacts with the poor communities. He resorted to churches, community organizations, NGOs and whatever capillary system of contacts with this mass of population was available. It took over a year to organize a basic cadastre of the poor. He also profited from some decentralized registration systems existing in some states and municipalities. The Cadastro Único, a unified information system on the excluded population became a formidable instrument of reaching the poor, not only for the Bolsa Familia but for the range of policies (SEDS, 2015).

Bolsa Familia itself is very simple. Once the cadastre was reasonably established, the mother in the household received a credit card, through which the family would receive a monthly amount of money, to be cashed in so many places in this modern virtual money system. It is impressive that the most backward communities in the country had one of their key problems solved through what is most advanced in technology. It is not secondary that the money flowed directly from central government to the final user without going through the filter of so many intermediaries in whose hands it tends to evaporate. The program reached basically 13 million families, roughly 50 million persons.

According to the World Bank,

The expansion of the *Bolsa Familia* (family grant), Brazil’s flagship conditioned cash transfer (CCT) program, has had a considerable equalizing

impact. Between 2004 and 2014, the number of beneficiaries rose from 16 million to 56 million, reaching about a quarter of the country's population. Bolsa Familia alone explains between 10 percent and 15 percent of the reduction in income inequality observed in the 2000s. Other targeted transfers, indexed to a growing minimum wage, such as the *Benefício de Prestação Continuada* (continuous cash benefit, a transfer to the elderly and disabled), were equalizing as well (World Bank, 2016b, p. 106).

The conditions were that children had to be attending school and be registered in health centers, which in turn stimulated school attendance and the expansion of preventive health. The Bolsa Familia thus gave birth to a series of complementary initiatives. For example, the program expanded the school food canteen program and this improved both attendance and performance. On the other hand, since many families did not show up in health centers, the Family Health System was created, in which a team of a medic, a nurse and a social assistant would visit the families in the poorest regions, in their homes, bringing vaccination and other preventive health initiatives where necessary and generating permanent links with the formal health system.

More and better food in schools was a cheap way of having more healthy children but it also stimulated local production. This was organized through a program which demanded that local administrations would purchase food from local family farmers. Small scale agriculture controls only 20% of land, but produces three quarters of food in the country. To improve productivity an important nation-wide program of oriented productive micro-credit was developed, so that production could be expanded, responding to growing demand and expanding jobs.

The Ministry of Agriculture traditionally concentrated its support on the agro-industry sector, huge areas of monoculture of soya beans and sugar cane, basically for export, as well as cattle raising. The government created a Ministry of Agrarian Development, specifically oriented towards support for the small-scale family agriculture, which stimulated modernization and production and since an important part of the improved purchasing capacity of the population was directed to food, increased production also found its market. No significant inflation pressure was registered.

These examples help the understanding that the Bolsa Familia did not work as an isolated money transfer scheme. It belonged to a wide scope of initiatives that supported one another. An important part of the overall program was that it relied heavily on the participation of civil society organizations, which are much more rooted in poor communities than formal government. In fact, many of the central or local public projects came to be headed by community and civil society leaders, who thereby gained an understanding of formal government administration, while public employees gained experience with a more result-oriented management, effectively serving public interest.

This is not a place for a detailed analysis of the 149 programs but some of the most important must be mentioned, to give an idea not only of the dimensions of the overall effort but also of the gains synergy of different programs can generate. One of the key attainments was regular improvement of the minimum salary, 77% in 12 years, which is essential not only for the mass of workers, but also for pensions, indexed on the minimum salary. This alone raised income for more than one third of the population. The *Benefício de Prestação Continuada* (Continued Benefit Payment) for the vulnerable population took out of poverty millions of disabled and other fragilized population that had not contributed to the public social security. In 2014 the UN agency FAO took Brazil out of the world hunger map, as the undernourished figures had fallen by 82% between 2002 and 2014.

Among the strongest attainments is education with university enrolment jumping from 3.4 million in 2002 to 8.1 in 2015. The ProUni and Fies programs opened quotas in university for students from public schools, black and indigenous origin (*Lei de Cotas*). The number of black students in universities grew by 268% during this period. A very diversified technical education program, Pronatec, reached 9.4 million participants (Mercadante, 2018).

Health services at the bottom of the pyramid allowed 63 million people formerly without access to services to participate in the *Mais Médicos* program (more doctors), covering the immense interior of the country, which the usually middle-class medical personnel were not interested in covering. Cuban doctors, through the Pan-American Health Organization OPAS, were important in this initiative. The *Farmácia Popular* (popular pharmacy) program permitted cheaper access to key medicine in a nation-wide network, circumventing the Big Pharma oligopoly prices.

A very publicized program concerned social housing. Building houses is quite cheap but the speculation on land and rent, as in other countries, creates dramas. Brazil presently still faces a deficit of about 6 million houses. The *Minha Casa, Minha Vida* (my house, my life) program delivered 2.7 million units in the period up to 2016, which generated jobs, stimulated the economy, and obviously reduced the social dramas. These are not costs, they are investments where they are most necessary and taking people out of poverty is cheaper than paying for the consequences.

Of course, inclusion involves much more than improvement of material living conditions. The improved access to higher studies by the negro majority (52% of total population), clearly set timid but important steps towards the reduction of racial exclusion. The introduction of the history of Africa and of its Brazilian dimension in school curricula contributed to reducing the scars inherited from slavery and from a eurocentrist formal culture. The *Maria da Penha* law improved the protection of women from violence and the support of the LGBT movements generated ample inclusion of people who were victims of gender prejudice.

The protection and inclusion of indigenous populations was improved through the expansion of exclusive indigenous areas (22 million hectares), and was linked

to the protection of the Amazon forest. Stronger environment protection legislation led to a reduction of the destruction of the rain-forest from 28 thousand square kilometers in 2002 to 4 thousand in 2010. Still a disaster, but a huge progress, especially considering the very strong reactions from the national and transnational agribusiness corporate cluster of interests (timber, soya and cattle).

Just for the record, in 2019, Amazon forest destruction rose back to 10 thousand square kilometers through systematic burning of huge areas, by the now identified latifundia owners with support from the presidency and the international commodity traders. Brazil has 225 million hectares of agricultural land, of which only 65 million are used for agriculture (both temporary and permanent), and the remaining 160 million hectares (five times the whole size of Poland) are dramatically underutilized, basically used for extensive cattle raising. There is no economic need whatsoever to burn the Amazon to open space for agriculture, as the present government has sustained.

The progressive governments had adopted the principle that “a rich country is a country with no poverty”. The overall results were very impressive and justified the immense popularity of Lula and overall the afore mentioned “Golden Decade” name but, as in other Latin-American countries that promoted inclusion, the traditional cluster of economic and political power of traditional Brazilian elites, transnational corporations and American geo-political interests reacted very strongly.

From 2013 on a large and systematic right-wing populist movement launched an attack on the economic and political democratization of the country, leading to the present far-right regime and the deconstruction of the main social inclusion and environment protection measures which characterized the Lula–Dilma years. In 2019 Glenn Greenwald and a team of journalists unveiled the plot organized by the judiciary, the Globo media corporation and a team of right-wing prosecutors and judges, to bring the whole experiment down (Greenwald, 2019). This investigative journalism produced evidence, published by Intercept and spread in the major media in Brazil and the international press, that the coup was based on a politically oriented deeply biased judiciary procedure, the presently named “lawfare”.

The formal impeachment of Dilma Rouseff was in 2016, Lula da Silva was jailed in 2018, for the time of the election, but already from 2013 on, even with Dilma being re-elected in 2014, the democratic experiment was over. Greed and hate are powerful political instruments and justice can be very weak, or even subservient. The 2003–2013 decade was an impressive success but demanding rationality in politics seems to be too much. Studies by Souza (2017) showed how much indignation could be felt by the higher or middle class, when for example a house-maid took a plane to visit her family, from the same airport as her bosses. Among Lula’s innovations, the 7 million house-maids, mostly black women unregistered and badly paid, were granted professional status, as any employee. Racism is strong and Brazil was the last country to abolish slavery. It is important to rationally face the irrational dimension of political options.

## **5. Back to inequality**

The impressive progress in economic, social and political terms during the Lula and Dilma administrations was, as we have seen, the result of a large scale and diversified set of initiatives. Similar policies were undertaken in many Latin-American countries at the time, also with impressive results. It is not a coincidence that all these countries presently face a general backlash with a return to right-wing regimes based on internal repression, reproduction of inequality and subservient policies regarding the United States. They proclaimed they would “fix” the economy, supposedly broken by the pro-poor policies, but what they did was bring down what was an impressive success. Going back to traditional neo-liberal policies is simply not working. As from 2014 on Brazil faced six years of stagnation in an economic, social and environmental downturn that it is equally interesting to present, especially considering that the loss of democratic governance is spreading around the world. The COVID-19 pandemic has obviously deepened the crisis, but the economic model was not working.

President Dilma Rousseff did get re-elected in 2014 but as the right-wing politicians and the big media proclaimed, she would not govern. The general climate of political turmoil and boycott paralyzed the inclusion policies already in 2014. Bankers were put in charge of the Ministry of Finance and the Central Bank. Vice-president Michel Temer, co-author of the coup, took over, in the name of fiscal responsibility and the fight against corruption. The new president, Jair Bolsonaro, elected at the end of 2018, is entrenching the country deeper in the crisis.

A far-right extremist, the former captain and open supporter of torture as a policy only brought the regressive policies to burlesque dimensions. It is important to mention that Brazilian police kills an average 14 persons a day (2018 average). Formally, there is no death penalty in Brazil. What is impressive is the elite support for the free-for-all policy concerning violence, actual stimulation of Amazon fires and a general sell-out of natural resources to international corporations, particularly the Pre-Sal oil fields. Simultaneously financial sector profits soared. This is indeed an overall political, social and economic backlash. The democratic period was enormously positive for the country, but it did not last. Brazil is apparently allowed to have democracy, provided it is not used.

The 2018 report by Oxfam Brasil presents the main trends after the 2014 election, de facto taken over by the right-wing power cluster.

Considering the last 5 years, the proportion of the population in poverty was increased...Gini coefficient for per capita income stagnated, the man/woman income proportion deteriorated, with similar negative trends for white/black population income, increasing poverty and child mortality, and Brazil receding from 10th to 9th position of the most unequal countries (Oxfam Brasil, 2018).

It is easy to criticize Bolsonaro as a fanatic or an idiot. But the fact is that he is in power and power relies on support, not just on votes.

The downturn did not come out of the blue. Taking a look with some distance it is important to remember that the dictatorial period from 1964 to 1985 had led to a pendular movement towards democracy and to the approval of the 1988 progressive Constitution. Article 3° stated that the

fundamental objective of the Federal Republic of Brazil is to build a free, just and solidary society, to guarantee national development, to eradicate poverty and marginalization and reduce social and regional inequalities, and to promote the common good, without prejudice for origin, race, sex, color, age or any other form of discrimination.

The Constitution also provided for the means, in Article 192°, that “The national financial system, [will be] structured so as to promote the balanced development of the country and to serve the interests of collectivity.” To prevent usury, it stated that “real interest rates will not be higher than 12 per cent a year.” So much for good intentions. Deconstruction would follow soon.

In 1995 a law was approved exempting distributed profits and dividends from income tax (Lei Federal n° 9.249, 1995). This was obviously a huge gift for the top of the pyramid. In the same year another law created a public debt mechanism through which the buyers of public bonds would be paid about 25% interest a year, the so-called Selic rate. In the rest of the world it is below 2% or less, sometimes even negative. This meant a huge slice of tax-money would go to bankers and other institutional investors, reducing public funding of education, health and other goods and services of universal access. The limits to usury were also taken out of the Constitution. In 1997 another law authorized corporations to fund elections, which obviously opened the way for clusters of economic interests to take over politics (Lei n° 9.504/97, 1997). This represented a direct violation of the first article of the Constitution which states that “all power stems from the people.” It took 18 years for the Supreme Court to notice, bringing down the law at the end of 2015. But the harm was done, the Constitution had lost its teeth.

Bringing down the overall social initiative, from an economic point of view, was based on a relatively little-understood instrument, the credit system. Since the numbers defy credibility the effective interest rates paid by families and by firms, on different credit lines are presented here. The source, ANEFAC (Associação Nacional dos Executivos de Finanças, Administração e Contábeis), publishes monthly statistics presenting interest rates for families (Table 1) and for businesses (Table 2).

These are the numbers, presented here as in the original, in Portuguese, sufficiently transparent for our purpose. For families the average interest rate was 87.97% in March 2013, and 92.73 in July 2020 (Table 1). For business (legal persons), the corresponding numbers are 43.58% and 42.08% (Table 2). There



**Table 1. Interest rates for families**

Type of credit	March 2013		July 2020		Change of annual rate (in percentage points)
	monthly rate (%)	annual rate (%)	monthly rate (%)	annual rate (%)	
Comércio	4.00	60.10	4.70	73.52	13.42
Cartão de Crédito	9.37	192.94	11.12	254.41	61.47
Cheque Especial	7.72	144.09	7.11	128.01	-16.08
CDC Bancos	1.52	19.84	1.38	17.88	-1.96
Emp. Pessoal-Bancos	2.91	41.09	3.18	45.59	4.50
Emp. Pessoal Financeiras	6.88	122.21	6.24	106.76	-15.45
Average rate	5.40	87.97	5.62	92.73	4.76

Note: in the first column above, on the type of credit: Commercial credit, Credit Card, Overdraft, CDC Consumer Direct Credit in Banks, Personal Loan in Banks, Personal Credit in non-banking institutions.

Source: (Associação Nacional de Executivos em Finanças, Administração e Contábeis—ANEFAC, 2020).

**Table 2. Interest rates for business**

Type of credit	March 2013		July 2020		Change of annual rate (in percentage points)
	monthly rate (%)	annual rate (%)	monthly rate (%)	annual rate (%)	
Capital de giro	1.49	19.42	1.09	13.89	-5.53
Desc. de duplicatas	2.22	30.15	1.28	16.49	-13.66
Conta garantida	5.46	89.26	6.55	114.11	24.85
Average Rate	3.06	43.58	2.97	42.08	-1.50

Note: On the first column above, Working Capital, Duplicates Discount, Guaranteed Account.

Source: (Associação Nacional de Executivos em Finanças, Administração e Contábeis—ANEFAC, 2020).

are no errors in these tables. Credit card revolving credit was 192.94% and reached 254.41 July 2020, while overdraft respective figures were 144.09% and 254.91% (Table 1). Considering that inflation varied between a mere 4% to 6%

during this period, this is obviously an economic nightmare. Banking profits rose dramatically, including Brazilian affiliates of international banks, while the economy was brought to recession (2015 and 2016) and to a standstill until present. In 2020, even before the pandemic, real GDP was at the 2012 level.

Tying down families, small and medium enterprises and government in a growing debt service trap is seldom clearly understood by the population in general. Traditionally low wages are the chief mechanism of surplus extraction. In what Kelly and Howard (2019) call extractive capitalism debt and rent seeking have become impressive new instruments. Money had also changed. It is difficult to take a ten-reais bill out of the pocket of the poor, but now this population has bank accounts and credit cards, which means they depend on virtual, immaterial money. World-wide cash printed by governments represents roughly only 3% of liquidity, 97% are only registries in computers. It is not printed by governments but basically emitted by banks. Charging 5% on tens of millions of daily credit card payments throughout the country, a toll profiting to banks, is very simple. Raising interest rates on millions of indebted individuals, or charging for some new service, means the banks just press "Enter".

A 2019 special edition of *Forbes Magazine* published in Brazil listed what happened at the top of the pyramid. In 2012 Brazil had 74 billionaires (billionaires in reais, equivalent to roughly 250 million dollars), with a joint declared personal fortune of 346 billion reais. In 2019 they were 206 billionaires, with a fortune of 1,206 billion reais. Between March 2018 and March 2019, the fortunes rose by 230 billion, 23% in one year, in a stalled economy, growing 0.9%. The 2019 figures show real GDP to be on the same level as 2012. Most of the gains came from the financial sector, in a powerful illustration of the strength of financialization. These are not profits resulting from productive investment, but dividends and rents from speculative investment. Fortunes in tax havens are not included in the Forbes study.

The trend was reinforced during the pandemic. Between March 18 and July 12, 2020, the fortunes of the 42 Brazilian billionaires in US dollars rose by US\$34 billion, equivalent of six years of Bolsa Familia, in four months, for 42 persons, basically financial fortunes. All exempt from taxes (Oxfam Brasil, 2020).

Money had to come from somewhere. As the roughly poorer half of the Brazilian population saw their income grow, during the 2003–2013 decade, they bought such basic means of comfort such as TVs, refrigerators and the like. Their earnings obviously did not allow them to buy cash and they massively resorted to credit. They sorely needed the products and both commerce and banks presented the interest rates as per month, not per year. Persons who had never had any contact with banking systems or credit in general and who were having a credit card for the first time, did not see much difference between being charged 4% or 5% a month as in the Table 1 above, but the difference is between paying 60% or almost 80% a year. This is not only usury in the amounts, but fraud in the information. In Europe they would pay a year what in Brazil they pay per month.

Small businesses did not have much choice either, since five banks in Brazil control 85% of credit and charge basically the same interests. Big business seeks money abroad in the international market, but small producers relate to the local branch of the banking oligopoly. Figures for 2016 show that the flow of interest payments by the private sector—families and businesses—reached one trillion reais, 16% of GDP, just interest, without reducing the debt amount (Estado de São Paulo, 2016). In February 2020, before the pandemic impact in Brazil, there were 61 million adults unable to keep up with their payments, declared ineligible for credit by the Serasa-Experian credit-worthiness control corporation (SPC, 2020). This represents around 40% of the population. Purchasing capacity was drained, transformed into financial profit. From 2013 on, as we can see on the tables above, the interest rates went even higher with bankers in both the Central Bank and the Ministry of Finance. This is self-serving economic policy working for the financial intermediaries.

What makes things worse, is that whereas in Europe the tax system is progressive, and the after-tax figures show a less unequal society, in Brazil the poor pay proportionally more taxes than the rich. This is due to the weight of taxes on consumption, almost 50% of the total. The huge tax evasion, in the order of 600 billion reais (8% of GDP), is practiced by the rich, since the poor do not have the know-how to evade either the consumption tax or the income tax retained on salaries. If we add the money in tax havens, estimated at 520 billion dollars in 2012 by the Tax Justice Network research (roughly 30% of GDP), money that is neither invested in the country nor paying taxes, it is clear that the Brazilian economy is leaking through the financial system in every corner.

Thus, while through the presidents' Lula da Silva and Dilma Rousseff inclusion policies the government promoted the poor, on the other hand the banks and other financial intermediation groups quickly learned to drain the resources to the rich, gradually breaking down the distribution process. President Dilma did try to control the financial system in 2012/2013, reducing interest rates in the Caixa Econômica Federal and the Banco do Brasil, both dominantly public, as well as the interests paid on the public debt but, as we have seen, she did not have the necessary power and was ousted. Brazil continues to have an extractive rentier system that has kept the economy at a stand-still during the last six years.

## **Conclusions**

The main conclusion is that indeed the inclusive economic policy adopted during the 2003 to 2013 period simultaneously improved family welfare and economic growth, thus showing the power of institutions to promote inclusive and sustainable development. On the other hand, the austerity measures and financialization characteristic of the more recent 2014 to 2020 policies led to

harsher times for the bottom of the pyramid and an economic standstill. At the same time wealth at the top of the pyramid rose dramatically.

In economic terms the analysis of the last two decades clearly shows that if the mass of the population is impoverished, demand is reduced. If demand is weak, production stagnates. This generates unemployment, which in turn reduces demand and stagnating demand, employment and production means less money for government to finance social policies and infrastructure. What worked during the inclusive phase consisted simply in orienting the economic policy to the common good and this meant providing money where it is most needed. For a deeply unequal country like Brazil it seems that inclusion of the bottom of the pyramid can be a powerful economic engine of overall development and a basic condition for democracy.

But it is not just about economics. Institutional change was essential to create the inclusive policies and a more democratic environment, allowing ministries to draw up integral regional development programs, ensuring regular consultation of stakeholders, decentralizing policies so that they could generate community empowerment. Economic, social, cultural and political inclusion go hand in hand for an integrated development program to work. Rather than looking only at top-down policies, it appeared that the organized reception capacity of the different programs at the community level was essential for the initiatives to work. Decentralization, participation and empowerment thus appeared to be important institutional dimensions of the whole inclusive development policy.

On the other hand, a more democratic political and economic environment clearly clashed with long term and deeply rooted oligarchies, powerful family networks of dependency so characteristic of extremely unequal societies. For the roughly 200 billionaires who were used to having tight control over finance, politics, the judiciary and the media, managing a kind of a Brazilian version of what has been called *Deep State*, the erosion of power in favor of a more democratic environment was clearly intolerable, whatever the overall consequences for the country. From 2014 on Brazil has suffered a systematic dismantling of all the inclusion policies, bringing the economy to a standstill and transforming politics into a nightmare. The pandemic was the last straw in this process, characterized by a convergence of economic, social and environmental crises. As in many other countries opposition movements in Brazil are now looking for new ways to get public policy back on a democratic trail. Institutions matter.

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