

# The current crisis in Brazil

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# The end of a state–society cycle and two crises (current)

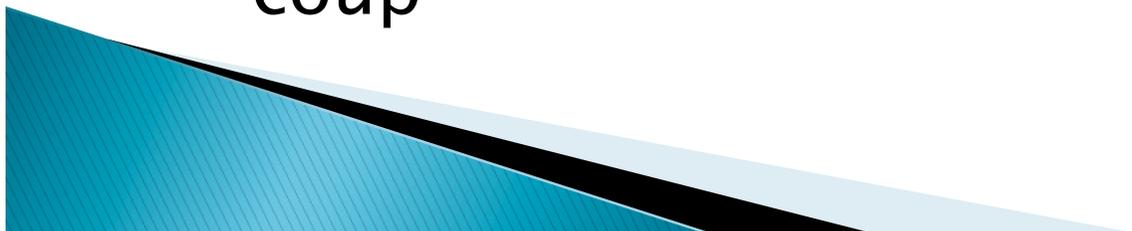
## ▶ Democracy and Social Justice Cycle

It achieved democracy and reduced inequality, but coincided with quasi–stagnation of income per capita:

1930–1980: 4.1%    1981–2014: 1.2%

## ▶ Two crises:

1. Economic: GDP falling almost in 10%  
2015–16
2. Political: Impeachment – a parliamentary  
coup



# Causes of the quasi-stagnation (or of the low investment rate)

## Low private investment

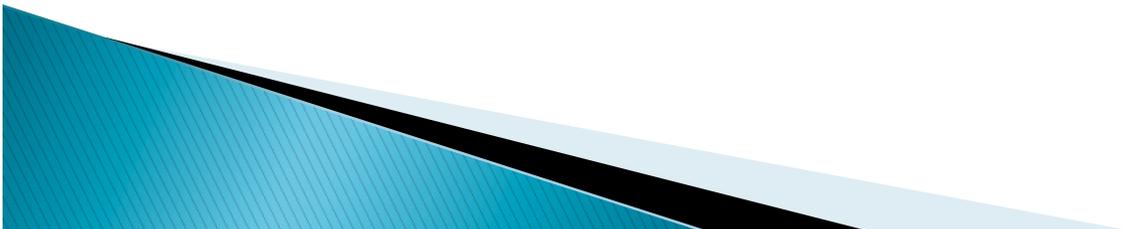
caused by the macroeconomic trap

-high interest rates,

-long term overvaluation of the exchange rate

## Low public investments

caused by low public savings



# Why the macroeconomic trap?

- ▶ **High interest rates**
  - political power of the **rentier** capitalists (traditional middle class and the very rich)
- ▶ **Long-term overvaluation of the exchange-rate**
  1. In 1990, with trade liberalization, Brazil stopped neutralizing the Dutch disease
  2. **Three usual policies:**
    - ▶ growth with foreign indebtedness (“savings”),
    - ▶ use the exchange rate to control inflation,
    - ▶ and high interest rate.



# Why low public savings and public investments?

Because

- ▶ The **right** claims that the state is not supposed to invest
- ▶ **The right** uses all additional tax revenues to pay interests to rentier capitalists
- ▶ The **left** uses all additional tax revenues to increase social expenditures (not ready to make trade-offs between the short and the medium-term)



# Why did PT's developmental strategy fail?

- ▶ Because it failed to overcome the high interest rate + overvalued currency trap:
- ▶ **Lula** accepted a brutal overvaluation of the exchange rate, which reduced radically the profit rate of the manufacturing industry
- ▶ **Dilma** tried to overcome the trap, but had no power for that. Instead, she
  - ▶ -irritated the rentier-financier elites
  - ▶ -lost the support of industrialists (low profits)
  - ▶ -caused a brutal increase in the fiscal deficit in 2013-14, which produced a fiscal crisis.



Now, coming to the present crisis

# 1. Causes of the major recession

1. Fall in commodity prices in 2014;
2. Petrobras scandal suspending related investments;
3. The households indebtedness achieved a ceiling.
4. Fragility of the manufacturing industry (deindustrialization or quasi-stagnation)



## 2. Causes of the impeachment (or parliamentary coup)

- ▶ The impeachment was a juridical farce.
  - ▶ Its **real causes** were:
    1. Dilma's lack of "legitimacy" – after being elected, expressed in dramatic fall in popularity;
    2. The decision of the economic elites to put an end in the Democracy and Social Justice Cycle and in the rule of the Workers Party.
  - ▶ Its **immediate cause** the economic recession, and the lost of governability that the economic elites created.
  - ▶ Additionally, Dilma was politically awkward.
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# The impeachment represents

- ▶ A major **shift to the right** and to economic liberalism.
- ▶ Thus, the **failure** of
  1. a social–democratic and
  2. developmental strategy, defined by class coalition of workers and the public bureaucracy with industrialists.



# What to expect?

- ▶ Reduction of indirect wages, by dismantling the welfare state.
- ▶ A new cycle of overvaluation of the exchange rate and financial crisis.
- ▶ The exchange rate, which depreciated in the crisis, will appreciate again.
- ▶ Current-account deficits, increase in foreign debt.
- ▶ Discouragement of investments and a new financial crisis.
- ▶ Long-term quasi-stagnation and social unrest.



## A reversion is possible in the next two months?

- ▶ Yes, Dilma needed 27 votes in the Senate and got 22.
- ▶ Several senators voted for the “admissibility” of the judgment, not for the impeachment.
- ▶ The inconformity of many is very high, completely different from the Collor impeachment.



▶ End

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