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North–South: Poland and Brazil in Turmoil

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Brazil and Poland are the countries presented as having best sailed through the 2008 global crisis. Clearly anti-cyclical policies work: instead of austerity measures, both countries maintained strong public investment, decentralized social policies and vigorous access to credit. More recently, however, our countries are facing the strong winds of financial globalization, with growing restrictions to the capacity of maintaining national economic policies. Comparing two very different countries is certainly challenging, but it does shed light on how the present global economic background affects us all. More recently, the economic and social progress in both countries has been suffering political disruption, particularly in Brazil, and we are suffering similar ideological cleavage with deep social divide also found in other countries. The present paper aims at shedding some light on this strange interaction of sound policies, global interests and disruptive politics.

Keywords: economic policy, inequality, financialization, globalization.

Północ–Południe – Polska i Brazylia w kryzysie

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Brazylia i Polska są przedstawiane jako kraje, które najlepiej przetrwały światowy kryzys z 2008 roku. Najwyraźniej w tym przypadku znaczenie miała polityka antycykliczna, ponieważ zamiast środków oszczędnościowych oba państwa utrzymały intensywne inwestycje publiczne, scentralizowaną politykę społeczną oraz szeroki dostęp do kredytów. Ostatnio muszą one jednak mierzyć się z falami intensywnej globalizacji, co niesie za sobą ograniczone możliwości prowadzenia własnej polityki gospodarczej. Porównanie dwóch tak różnych krajów jest niewątpliwie zadaniem trudnym, lecz pozwala zrozumieć ogólny wpływ podwalin obecnego kryzysu gospodarczego. Co więcej, postęp gospodarczy i społeczny w tych dwóch państwach został zakłócony przez politykę, co dotyczy zwłaszcza Brazylii, w której rozłam ideologiczny skutkujący głębokimi podziałami społecznymi jest podobny to tego, co dzieje się w innych krajach. Celem artykułu jest przybliżenie tej niezwykłej interakcji między należycie opracowanymi programami, globalnymi interesami a destrukcyjną polityką.

Słowa kluczowe: polityka gospodarcza, nierówność, financjalizacja, globalizacja.

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Brazil, 206 million inhabitants, 8.5 million square kilometers, GDP of US$2 trillion. Poland, 38 million inhabitants, 313 thousand square kilometers, GDP of 500 billion. A smaller scale in Poland, but a similar per capita GDP, US$10,000 for Brazil, 13,000 for Poland. Both brought down authoritarian regimes a couple of decades ago, very different ones, but both demanding the building of new political decision-making processes, and obviously a redefinition of what our countries wanted in terms of their future. And after serious progress in both countries, we are at present moving backwards with absurdly conservative regimes, with policies which can boast little legitimacy but proclaim a highbrow self-righteous attitude.

For Poland, as I see it, in the beginning everything that tasted “West” was good. Just open up and let the market do what it will. Gradually, many came to feel that “West” today means basically transnational corporations, free for all values and ultimately no values at all, except for a bulldozer path being opened for transnational corporations, banking and invasive marketing. Confusion opened the way for a regression to ancient values, or at least to ancient speech, helpless as the least informed proved to be in the modern world. As so many countries, Poland is looking for national space in a global economy. The global economy has no use of national space, and citizens don’t find their place in the global anonymous world. And it is enough to have a look at the political confusion world-wide to understand that Poland is not alone in this quest.

Brazil had no “East” alternative, and had had a good taste of what “free market” really means. In the era of financial giants, free market means global corporate power with little national regulation capacity. We did manage to bring down 21 years of military and corporate dictatorship, but a great part of its structure remained. We *are* deeply sunk in the West, unfortunately far ahead of Poland in the transnational morass that makes any kind of attempt at what we could call a decent and sustainable development particularly difficult.

Comparing the two experiences would be a very large exercise, there are so many differences. But if we take a few aspects, and in particular the last few years in selected areas, it can prove interesting. Particularly stimulating is the fact that, after the 2008 financial crisis and its sequels, both countries proved exceptionally resilient. The Economist raised the question of why Poland is the only country in Europe that sailed the crisis without a recession. And the Brazilian results, based on social and economic inclusion, also showed the country particularly resilient. Is there a common field, in terms of economic and social strategy?

A Brazilian paper, *Brazil: An Agenda for the Decade*, was the result of a large consultation in 2010 coordinated by the National Council for Economic and Social Development (CDES), linked to Lula’s Presidency. It presents a basic strategy analysis for the country, in terms of the macroeconomic challenges, credit policy, social support for the mass of the Brazilian poor, and draws up what could be a strategy for the decade (Dowbor, 2010).

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A Polish paper was prepared in 2012 by the Agencja Rozwoju Regionalnego (ARLEG) with the direct participation of Katarzyna Jakubas, Agnieszka Młynarczyk and Szymon Hnat, coordinated by Jarosław Rabczenko and Robert Kropownicki. It is centered on macroeconomic data, the Polish banking system, the support for small and medium enterprises, social support policies and the electoral system.[1]

The strategic issues mentioned in the Arleg paper appeared to me, from the standpoint of a Brazilian/Polish economist, as challenging, and deserving some comments. I imagine a similar exercise would be interesting from the Polish side and concerning the Brazilian discussion.

Let me just mention that we all have, in whichever countries we live, some growing common concerns. Environment issues are becoming huge world-wide, as climate changes become more and more evident, and as we look rather helpless in the face of the reduction of access to safe water, the depletion and pollution of aquifers, the disaster of overfishing, deforestation, loss and contamination of agricultural soil, loss of biodiversity and so on. WWF brings us the impressive disaster of 52% of world fauna destroyed in the forty years from 1970 to 2010 (Carrington, 2014). This isn't working, no matter who you vote for.

The social issues are also rising. At the beginning of last century we were 1.5 billion, we have now reached 7.6 billion, and are growing at the pace of 80 million persons a year, and everyone is striving to maximize consumption. The World Bank presents the challenges of the 4 billion persons who "do not have access to the benefits of globalization" – more than half of humanity, but also the billions living on less than 1.90 dollars a day (Word Bank, 2007). And we have the more recent staggering numbers presented at Davos World Economic Summit: 8 people have more wealth than the 3.8 billion in the bottom half of the world population. Basically the richest one percent wields more wealth than the other 99 percent (Dowbor, 2017a). Who are these astoundingly rich persons, did they produce all they own? Well, basically, they belong to the financial sector. They own papers which give them rights to the results of other people's efforts. Their business is not profit, it is rent, or as Joseph Stiglitz and other researchers have it, *unearned income* (Stiglitz, 2015, p. 237).

We can certainly build walls in Mexico, Israel or even within Europe, but we are missing the problem. Money isn't physical anymore, and no wall will hold back the transnational financial system, far more dangerous than so many immigrants. It has created the global financial crisis, which is resulting in an ungoverned world-wide mess. We do not know how to manage this mess, but we do know how to organize statistics. The Swiss Federal Institute for Technological Research has shown that a small group of 737 corporations control 80 percent of the corporate world, among which a nucleus of 147 control 40 percent, three quarters of them being banks (Vitali, Glattfelder and Battiston, 2011). Welcome to financialization.

The environmental world-wide disaster, and the deeply flawed way we face inequality by trying to build fences to protect us from the poor, have a common cause: the financial resources are going up, so high up that they have dried up our capacity to fund the obvious: the technological change necessary to cease destroying the planet, and the economic inclusion which is the only sensible way to make the poor busy in their own countries. The resulting economic chaos is bringing up the darkest aspects of politics, religious fundamentalism, the gaping faces of people not knowing what the difference of who they vote for means. Insecurity has become the main motivation, not so unlike the political madness that followed the 1929 economic crisis.

Those who search for solutions with their brain and not with their gut – and the gut certainly is the main decision-making organ for insecure people – did assemble the key ideas we can rally around, with the 2015 world conferences: in New York we have drawn up the Sustainable Development Goals (SDGs) with 17 overall goals rooted in basic common sense, giving us a sensible horizon for 2030. In Paris, we drew up the actions needed to face environmental challenges, particularly concerning climate change. And in Addis Ababa, in the action plan to finance sustainable development, we tried to organize the financial resources for the good intentions spelled out at the other two conferences. In this last aspect, little has been attained.

Let it suffice that the grand objective of raising 100 billion dollars a year to fund the energy matrix and other challenges approved in Paris, however generous it may seem, must be compared to the 20 trillion dollars in tax havens, 200 times as much (The Economist, 2013). These financial resources not only will not be invested where needed – the environment and the social challenges – but do not even pay taxes. The overall trend has been adequately termed as a *slow motion catastrophe*.

We do not have a problem of financial means. The world presently produces around 80 trillion dollars of goods and services a year, which is roughly 11 thousand dollars per capita, or 3.5 thousand dollars a month for every four-member family. Largely enough for everyone to live with comfort and dignity. The problem is that these financial means are in the wrong hands. Let us not be communist, excessive equality can be oppressive, but the degree of inequality we have reached, and the fact that the control of resources is in the hands of financial intermediaries who neither produce nor pay taxes – well, Apple did pay 0.005 percent on its profits, thanks to *tax optimization* through financial institutions – means that we are in a stalemate not for lack of resources, but for lack of adequate governance (Stiglitz and Pieth, 2017). To put it simply, finance is global and roams the world, while governance is fragmented around some 200 national governments trying to survive. This won't work.

Not convincing? *The Economist* (15 Dec. 2012, p. 75) presents the 28 "global systemically important banks" too big not only to fail, but to man-

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age themselves, and too powerful to allow regulation. More recently, they have been found to be *too big to jail*, as in the cases of the Deutsche Bank, HSBC, Barclays, and actually the whole set. The average capital each of these banks has to play around was 1.82 trillion dollars in 2012 (Morin, 2015, p. 165). This is the size of the GDP of Brazil, world's seventh economic power, and roughly 4 times the GDP of Poland. Nobody elected their CEOs. Political power has moved, as Octavio Ianni wrote: *A Política Mudou de lugar*. In fact, the three global critical megatrends, environment erosion, inequality and loss of financial governance, are part of our global reality, and in a way have become our common future, or common icebergs.[2]

The key issue is that the fragile democratic decision process we have inherited after World War II and Bretton Woods, based on elections and political parties, is being stressed to the limit. We need better governance, accountability and transparency at all levels, including participatory local governments and regulated corporations. This is why when things seem to work in some countries, or even at a lower scale in cities, it seems good to have a look, to watch for common traits and differences. The time when we had to hear "There Is No Alternative – TINA" in the UK, or that we had reached the "end of history" is over. Everyone, with unfortunate exceptions at the top, is looking for alternatives.

My overall impression is that Poland has created a reasonably well structured tax system, that it has maintained and developed social policies, in particular for the poor (which the tax system allowed to pay for), that it has profited from its apparent backwardness in the banking system which allowed it to better protect productive funding from the global financial speculation, and has put together a strong set of measures to support small and medium enterprises, which is vital in terms of supply, jobs and social balance. And from a management point of view, the decentralized local and regional management system has allowed for the issues to be faced in a dimension where they can be more effectively and flexibly faced. Finally, it has kept, through detailed regulation of elections funding, a reasonable autonomy of political decision in the public sector, contrarily to what the United States and Brazil are presently facing, where corporate funding of politics has created an inextricable confusion of private interests in the public sphere.

1. Basic Macroeconomic Issues: The Happy Days

I am not in a position to discuss the present PIS policies, which I tend to classify together with the general reactionary and nationalistic trends that are surging throughout Europe. But my view is that Poland was doing fairly well before this regime took place, a positive trend which was becoming more strained as global economics and politics took over. A certain parallel can be traced here with Brazil, where what the World Bank report on

Brazil classified as a Golden Decade (World Bank, 2016) (Lula's two terms and Dilma's first term, 2003–2013) was interrupted by a parliamentary coup which is setting Brazil backwards at an impressive pace. So the following remarks concern the good times, so to speak, and a little of the bad times in Brazil only.

Poland maintained a steady GDP growth around or above 3%, which in the post-crisis Europe is a feat in itself. Brazil presented more irregular figures, but quite dynamic overall. A specific Brazilian situation is that it relies heavily on multinational corporations, and these have been sending earnings to the countries of origins, thus reducing local investment and expansion capacity. A broad discussion has set in in Brazil concerning the "quality of GDP". Some oil exporters, to give an example, have strong GDP figures which stimulate luxury goods imports from richer countries, instead of stimulating new internal activities or improving the social or environmental situation overall. Growth based on richer internal activity links on the other hand may show less GDP but more quality of life progress and endogenous economic growth.

Brazil had moderate GDP figures during the 2003–2013 "golden decade", but full employment (4.6% unemployment rate) and strong growth of salaries. It also invested heavily in the social sector (particularly education), and infrastructure: both are important for the long-term stimulation of the economy, but do not show in the short term. What seems a common challenge for all of us is really going "Beyond GDP", the line that the European Commission is sponsoring. GDP has become too rough and simplified a figure for a modern complex economy.[3]

The key common feature in this area is that both our countries' growth had been based on social and economic inclusion. An analysis by the Conselho de Desenvolvimento Econômico e Social states that "in the last five years, Brazil was the country that best used the results of economic growth to raise standard of life and well-being of the population" (ESP, 07/01/2013). In the Polish case, "Decisive for the GDP growth has been in great measure internal consumption, which has reached growing trends in the years we have studied" (ARR, 2013, p. 7). This is a key issue, since it goes in the opposite direction of mainstream bank-centered policies, which demand austerity, more money transferred to banks (the liquidity issue), instead of stimulating the economy by funding consumption, public investment and support for job-generating small and medium business in industry, services and agriculture.

2. The Banking System

This has important consequences for the banking sector. The redistributive function of taxes has been dwindling in richer countries, since the rich class, and particularly the banks, had the double advantage of paying less taxes and earning more risk-free money on the public debt. The rise in

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public debt has led to the present stalemate in which the more indebted the public sector is, and thus down-graded in its payment capacity, the more it has to pay in interest, and the more the debt grows. The commercial banking sector thus "captures" the economic policy as a whole. Poland seems to have escaped this trap, but not Brazil, where real interest rates on public debt above 6 percent (net of inflation) weigh heavily on the budget. What sustained Brazil and Poland in the financial area, apparently, is the existence of a strong public banking sector (state controlled or cooperative), which enabled our countries to undertake counter-cyclical measures during the post 2008 critical period, through maintaining or even expanding traditional job-creating credit, local support for small and medium enterprises and so forth.

It is good to recall here the recent reports on Iceland, which came out of its catastrophic situation through public takeover of banks.[4] The Arleg report expresses its concern: "Dwindling tax income is worrying – PIT and CIT in the 2008–2010 years, resulting from weaker economic development in Poland." (ARR, 2013, p. 13) Substituting taxes, usually unpopular, by incurring in debts, which are not immediately felt by the population and which the banks support, is very dangerous.

Overall, comparing the two banking structures is very interesting. Poland has maintained a strong cooperative banking sector, which "because they have limited own funds these banks basically serve the household economy, individual farming and small family enterprises". In the words of prof. Balcerowicz, "the crisis did not touch Poland, since the Polish market has shown to be healthily backward" (ARR, 2013, pp. 14, 22). More recent information (2016), nevertheless, tends to show a strong progression of global banking control on the Polish financial system.

Brazil has been able to support this kind of activity through the Banco do Brasil and Caixa Econômica Federal, and some regional public banks like Banrisul and Banco do Nordeste. For heavy infrastructure we have the BNDES, a public investment bank. It must be noted that Brazil's commercial banking is dominated by only four giants, HSBC, Santander, Itaú and Bradesco, while Poland boasts 642 banks and credit institutions.

The *de facto* cartel in Brazil results in sky-high commercial interest rates, in the order of 40% for legal persons, 150% for personal credit, 485% (sic) on credit card revolving credit. It is to be noted that the post-tax profits of Itaú alone amounted to roughly the same amount as the Bolsa Família, the main income transfer system in Brazil, which reaches 50 million poor. The power structure of the big-bank system makes it very hard to introduce market mechanisms in this political power structure. The present commercial banking structure is considered to be the main obstacle to a more dynamic development in Brazil.[5]

This certainly is a crucial issue. With all due respect to Aristotelians, *pecunia pecuniam **non** parit*. Good use of money involves sustainable consumption, and most of all productive investment, which in turn demands very time-consuming evaluation of concrete development projects, enterprise support and so forth. It is interesting that the distinction between rentier speculative activities and productive investment does not exist in English. They call everything investment. In French *investissements* is different from *placements financiers*, as it is in Portuguese, with *investimentos* and *aplicações financeiras*. The English financial jargon uses *investment* for everything, putting speculation on derivatives on the same level as the creation of a shoe factory or a school. The Economist has tried the curious expression *speculative investments* to make the distinction as compared to *productive investments*. But the main issue is that our financial resources, be they public in the government sector, or savings belonging to the public but trusted to private banks, must be used to stimulate sustainable development and to offset crisis, not to deepen it through pro-cyclical behavior.[6]

3. Small and Medium Enterprise Support

Equally interesting is the support system for small and medium enterprises built in Poland. The Report shows that for every 100 members of working-age population, 12 are owners of their own firms. For every ten thousand inhabitants, there are 28 civil society organizations (ARR, 2013, p. 25). With almost 4 million firms, Poland has a solidly implanted grassroot economic system. With the new generation of technologies, and the transition towards more knowledge intensive activities, the scale economies are becoming less relevant, which means there are very rich opportunities in this mix of a less oligopoly-based economy with new technologies, leapfrogging to the front line of sustainable production, both innovative and job intensive. This kind of development, through its inclusive character, is also important in terms of inequality reduction, but demands a very strong effort in training and technical support (ARR, 2013, p. 26).

An important issue is raised concerning high social security costs (ARR, 2013, p. 26). The entrepreneurs complain that higher costs reduce their incentive to generate more employment. This is correct from the narrow point of view of the individual firm, since the working hour is more expensive. On the other hand, as it raises overall demand, all firms will be better off at the macroeconomic level. Brazil had kept dramatically low pays and social contributions for ages, and this created the dual economy, where firms had to work for a narrow high-income market. Cheap labor is very costly overall, and the Brazilian model had precisely reversed the trend during the Lula-Dilma governments, opening up more opportunities for business in general.

The Program *Operacyjny Kapital Ludzki* is very interesting in this regard, since it sees the small and medium enterprise support process as simultaneously a technological program and an economic inclusion process (ARR,

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2013, p. 27). This can be particularly interesting in the face of the important sector of small scale agriculture Poland has inherited. Brazil has similar programs in the form of micro-credit (particularly Banco do Brasil and Banco do Nordeste, both public banks) and technical support through institutions like Sebrae, a small-enterprise technical support system funded by a percentage of the wages firms pay. The advantage of such a structure is that it works in public interest but without the heavy bureaucratic government superstructure.

4. Social Support System

It seems that here too our experiences had very much in common. The key issue is probably the fact that our social policies do not belong to a sector of government (some sort of pro-poor department), but constitute a national state policy: "Social support belongs as institutional policy of the state" (ARR, 2013, p. 32). This is an essential approach, since poverty, social exclusion, unemployment and other forms that deprive people of their basic rights constitute integrated and interwoven problems that must become a dimension of every sector at all levels of government. Market mechanisms lead the economic system to work according to effective demand – purchasing capacity – not according to necessities. Inequality thus tends to become a vicious circle, demanding public corrective action.

The interesting common debate is that social and economic inclusion policies constitute an obvious ethical issue – we are not animals to leave children or adults to be deprived of what is essential, in a rich society – but also good economic common sense. Taking the poor out of poverty makes them more productive – nobody is productive on an empty stomach – and generates an expansion of demand at the bottom of society, which in turn stimulates the economy at all levels. Also important for countries like Brazil, as the poor improve their lot, they have less children, and the trend becomes self-sustainable. And, last but not least, it is much cheaper to take people out of poverty than to pay for the consequences.

This is much more than just doing something for the poor. It means changing the economics mainstream. The Economist was until recently quite sure of its economic theory. Inequality was considered to be good, since money in the hands of the rich would become investment, generating jobs and prosperity, while money in the hands of the poor would result in just consumption of non-sophisticated goods and an economic dead end. More money in corporate bank accounts would be good, because private money tends to be managed efficiently, while public money means taxes and corruption. Shedding jobs is good, because the corporation will be leaner (and meaner), which means it will be more profitable. And the unemployed will find something else to do. And of course huge banks are good, because they have so much money and so much political clout that they will not fail, so our savings are safe, which means we are safe too. Milton Friedman went so far as to support such a self-serving argument as "greater inequality would spur people to work harder and boost productivity". You could like income inequality because it was, in a way, good for the poor, besides being excellent for your pocket. *Greed is Good*, proclaimed Wall Street.

The momentous shift in The Economist views is important, because it is a sort of bible for right-wing economics, and it has curiously contaminated even the IMF and the World Bank, and stimulated the Davos discussions on inequality. In its special report (October 13th, 2012) opting for "*true progressivism*", The Economist woke up to the obvious: "Over the past 30 years incomes have soared both among the wealthy and the ultra-wealthy. The higher up the income ladder, the bigger the rise has been. The result has been a huge, and widening, gap – financially, socially and geographically – between America's elite and the rest of the country" (p. 12). What's more, "research by economists at the IMF suggests that income inequality slows growth, causes financial crises and weakens demand… In all sections of society, there is growing agreement that the world is becoming more unequal, and that today's disparities and their likely trajectory are dangerous" (p. 6). Simply put, those at the bottom stay at the bottom, or are pushed further down, unless adequate policies are adopted.

Recent research on the United States gives us a true dimension of the challenges: "First, our data show that the bottom half of the income distribution in the United States has been completely shut off from economic growth since the 1970s. From 1980 to 2014, average national income per adult grew by 61 percent in the United States, yet the average pre-tax income of the bottom 50 percent of individual income earners stagnated at about $16,000 per adult after adjusting for inflation. In contrast, income skyrocketed at the top of the income distribution, rising 121 percent for the top 10 percent, 205 percent for the top 1 percent, and 636 percent for the top 0.001 percent." (Piketty, Saez and Zucman, 2017).

So it is heartening to read this clear statement in the Polish report: "A duty of social support is to prevent difficult life situations through actions aimed at making persons and families autonomous and socially integrated" (ARR, 2013, p. 32). The programs reach 8.1% of the population, which is very significative, and particularly significative is the fact that they reach 15.8% of the young, and are also directed to foreigners, instead of waging war on them. The result, for example, is that – without the social transfers – the poverty index reaches 43.3%, and while taking into account the transfers, the number falls to 17.6% (ARR, 2013, p. 36).

In Brazil the situation was obviously more critical, since we had a Gini of 0.58, presently down to 0.48, while Poland has a Gini around 0.32, which means overall Poland is much less unequal. Actually, Brazil continues to be one of the 10 most unequal countries in the world. It is thus understandable that the Lula campaign in 2002, running for the Presidency, was

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centered on the “Fome Zero” motto, or “zero hunger”. After 8 years of Lula government, and 4 years of Dilma, we were gradually reaching more civilized levels. Dilma government’s motto, “A rich country is a country without poor people”, is eloquent. Basically, 50 million were lifted out of poverty. Brazil relied on a very large spectrum of initiatives, roughly 150 social and economic inclusion programs, such as Prouni, which enabled the poor to reach universities, Luz para Todos, which ensured everyone had access to electricity, Pronaf, which brought more productive credit to small-scale farmers, the minimum wage raised to a more decent level, rising pensions for the elderly and so forth (World Bank, 2016; Dowbor, 2017). All these programs, despite their success (and in great part because of it) are being torn down by the present illegitimate government (2017).

In Brazil also the banks were crying for “liquidity”. But what maintained the economy firm during the crisis was “liquidity” at the bottom of the pyramid, and it is probable that in the Polish case, both the banking sector situation raised by prof. Balcerowicz, and the strengthening of the social policies converged to protect the country in the critical European situation. For how long remains to be seen.

A very interesting issue to be raised concerns the institutional and management issues of inequality redressing policies. In the case of Brazil, the policies became a cross-ministerial state policy issue, and for the management the government relied heavily on civil society organizations, churches, unions and so forth. Key projects were directly managed by civil society organization leaders rather than politicians, people who had managed social policies during their lifetime and now had the law and resources to support them. The efficient organization of the inclusion programs is crucial. We know how to manage a state department or a private company, but we are all learning to manage integrated social policies. The scarce resource is not money, it is management capacity, and the organization of a more democratic decision-making process. And of course, as we presently see, building political support for these policies.

5. Political Campaign Funding

This is another key issue. Management capacity is a more critical problem than the existence of resources. We are rich countries. The city of São Paulo, to give an example, with its 11 million inhabitants, boasts 7 million vehicles. Even the poor seek to have a vehicle, frequently having to sacrifice essential goods, because if they have no mobility, they have no income. Having a car is very expensive. With this density of means of transportation, the city is virtually paralyzed. We spend an average 2.43 hours a day in traffic, a time we are not working, nor resting, nor enjoying family life: we are just polluting and spending money on gas, accidents and health. How is it that the most modern city in Brazil, with a *per capita* product of 20 thousand dollars, did not build the corresponding public mass transportation system?

Cars are not necessarily a drama. But when millions of persons want to reach basically the same regions at the same time every day in individual transportation means, the result is chaos. Brazil has excellent economists, transportation planners and so forth. But the successive mayors, with few exceptions, have simply been elected by corporate money. In Brazil, corporations were free, until 2015, to fund their candidates' campaigns, up to 2% of their capital declared in the former year. This means huge amounts of corporate money were directed to choose politicians who would be favorable to fund more infrastructure for cars, and would pay lip service to public transportation. The national election for local authorities cost Brazil billions of dollars. It takes more than half a million dollars to elect a federal representative. The result is that in the executive and legislative bodies we have representatives of big media, big banks, big agribusiness – and very few people representing public interest. This simply means that the crucial issue for a functioning democracy, representation of public will, is going down the drain. The Supreme Court finally declared corporate funding of elections unconstitutional in 2015, after 18 years, but the harm has been done. Capturing the judiciary has become a new way of reaching power.

The above-mentioned Economist report states clearly the situation in the US: "Broader cronyism between Wall Street and Washington over the past 30 years has allowed financiers to tilt the rules in their favor. The finance industry (along with property and insurance) employs more lobbyists than virtually any other industry, around four per Congressman" (p. 15). Hazel Henderson puts it beautifully: "We have the best congress money can buy".

It was a central issue in Brazil, since it forced the progressive governments to permanent haggling within the government itself. And crucially, it diverted resources to the corporate agenda, even when contrary to the public agenda. It is not an ideological discussion anymore between those who want more room for the private sector on the right, and those who demand more public policies on the left: It is a problem of the private sector sitting inside the government, under political disguise. Public policy has been privatized.

The Polish options are in this sense very interesting, with election funding limited to concrete persons, citizens, and with a ceiling to how much each physical person can contribute. But we may be sure that corporate money is looking for space to penetrate the system.

I obviously feel more comfortable commenting on the Brazilian than the Polish issues. But let me suggest, at my level of information, that more concern should be directed to policies for unemployed youth, a critical situation world-wide, and also to the environmental issues, for sustainability depends critically on more balanced long-term policies of preservation of nature, and represents an avenue for the adoption of more sophisticated technologies.

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Further studies may center on small scale farming in Poland, a huge challenge in Brazil. The fact that Polish agriculture was able to leapfrog to environmentally and technologically scaled up product quality, instead of moving to big scale monoculture which is showing its limitations worldwide, is particularly interesting. In Brazil, huge areas based on monoculture and very intensive use of chemicals are showing dramatic consequences, particularly in the Amazon region.[7]

But these are considerations we are all discussing, in so many countries. We are in a rapidly changing universe. There are no single silver bullet magical solutions, but the patient building of more resilient systems.

6. Brazil: Losing Ground

Internally, the measures cannot be straightforward. ANEFAC clearly states the shortcomings of a system that is formally ruled by private law: "We emphasize that the interest rates are free and they are stipulated by the financial institution and there is consequently no price control or ceilings for charges made. The only commitment for the financial institutions is to inform the client which fees will be charged should any type of credit be required." Of course, as it is a cartel, the credit borrower has no choice. The ANEFAC recommendations are very simple: "If possible delay purchases in order to have money to buy the same thing with cash payment avoiding interest." In other words, do not use credit. This, recommended by the "National Association of Finance Administration and Accounting Executives", is impressive (ANEFAC, 2017).

However, the government has powerful weapons. The first is to resume the gradual reduction of the interest rate on the public debt rate (Selic), which would force banks to seek productive investment, funding for entrepreneur initiatives, and reducing the drain of public funds to banks. The second is to reduce interest rates to end borrowers in the network of public banks, as was tried in 2013, but this time persisting in the dynamics. It is the best way to introduce market mechanisms in the financial intermediation system, contributing to weakening the cartel and forcing it to reduce the stratospheric interest rates: the final borrower would again have some options.

The third is the overall reform of the tax system: it does not mean we have to raise taxes, but to rationalize their incidence. The INESC research shows that "in Brazil, the tax on assets is almost irrelevant, since it is equivalent to 1.31% of GDP, accounting for only 3.7% of the tax revenue of 2011. In some of the central capitalist countries, taxes on assets represent more than 10% of tax revenue, for example, Canada (10%), Japan (10.3%), Korea (11.8%), Great Britain (11.9%) and the USA (12.15)" (Salvador, 2014, p. 21). If we add the low incidence of income tax, and the fact that indirect taxes represent 56% of the tax collection, we have a situation that claims for change.

Tax incidence in Brazil – 2011		
	% of collection	**% of GDP**
Consumption	55.7	19.7
Income	30.5	10.8
Assets	3.7	1.3
Others	10.1	3.6
Total	100.0	35.4

Source: INESC – implications of the Brazilian tax system, September 2014, (part of Table 1 pg. 13).

“It should be stressed that the tax burden is very regressive in Brazil as it is concentrated on indirect and cumulative taxes that burden the workers as well as the poorer the most, since more than half of revenue comes from taxes levied on goods and services, with low taxation on income and assets. According to information collected from the ‘Pesquisa de Orçamento Familiar’ (POF) (Household Budget Survey) 2008/2009 by IPEA, it is estimated that 10% of poorest families in Brazil allocate 32% of the income available for the payment of taxes, while 10% of the richest families spend 21% of their income on taxes” (Salvador, 2014, p. 6).

Not only the tax burden is regressive, but tax evasion is simply huge. According to a 2011 Tax Justice Network study, it would be in the order of 280 billion dollars, the second place after the US in absolute terms, and much more proportional considering the size of the American economy (TJN, 2011).

The top ten countries losing to tax evasion in absolute terms are:

	Country	GDP	Population	GDP per head of population	Size of shadow Economy	Tax burden – overall	Gov't spending as % of GDP	Size of shadow Economy	Tax lost as a result of Shadow Economy
		US$'m		$	%	%	%	US$'m	US$'m
1	USA	14,582,400	312,582,000	46,651	8.6	26.9	38.9	1,254,086	337,349
2	Brazil	2,087,890	190,755,799	10,945	39.0	34.4	41.0	814,277	280,111
3	Italy	2,051,412	60,705,991	33,793	27.0	43.1	48.8	553,881	238,723
4	Russia	1,479,819	142,914,136	10,355	43.8	34.1	34.1	648,161	221,023
5	Germany	3,309,669	81,724,00	40,498	16.0	40.6	43.7	529,547	214,996
6	France	2,560,002	65,821,885	38,893	15.0	44.6	52.8	384,000	171,264
7	Japan	5,497,813	127,720,000	43,046	11.0	28.3	37.1	604,759	171,147
8	China	5,878,629	1,339,724,852	4,388	12.7	18.0	20.8	746,586	134,385
9	United Kingdom	2,246,079	62,300,000	36,053	12.5	38.9	47.3	280,760	109,216
10	Spain	1,407,405	46,162,024	30,488	22.5	33.9	41.1	316,666	107,350

No other countries lost more than US$100 billion totax evasion.

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The fourth, of course, is to promote a series of research on domestic financial flows in order to provide greater transparency in this domain where people simply are not well oriented. To generate the political power to reduce the extent of cartelization, reintroduce market mechanisms and transform the financial intermediation system, the population needs to be properly informed. One of the most awesome aspects of this vital area for the country's development is the ominous silence not only of the media but also of the academia and research institutes on the scandalous process of deformation of the economy by the financial system.

Many other solutions can be considered, such as the cooperative banks in Poland, local savings institutions like the German *sparrkassen*, or strengthening the Community Development Banks which are over a hundred in Brazil presently, and which allow the savings to be used not for speculation but to finance local development. The common denominator is to rescue management of our financial resources to finance development, not the casino.

Whichever way we look at it, the fact is the Brazilian economy is being drained by intermediaries who produce little or nothing. If we add up the interest rates to individuals, the cost of installment plans, interest for legal entity, the drain through the public debt and tax evasion by means of tax havens and illicit transfers, we have a structural deformation of the production processes. Efforts to boost the economy while dragging this speculative waste load bound to the feet are useless. There are more ills in our economy, but here we are addressing a huge mass of resources, which are necessary for the country. It is time that the business world itself – that actually produces wealth – woke up to the imbalances, and assigned responsibilities where they should be. Organized retrieval of the productive use of Brazilian resources is mandatory.

The present government empowered through a parliamentary coup in 2016, but effectively controlling the economy from 2014 onwards, means the economic horizon is bleak. Dilma tried to reduce interest rates in order to favor productive funding instead of financial rent, and this caused a political upheaval from the rent seeking elites. The pro-banks measures forced upon government and the following coup sent the Brazilian economy spiraling down, with GDP falling by 3.6% in 2015, and 3.8% in 2016. Corruption fighting is always positive, but in Brazil, as in other countries, it has become basically a justification to present the power struggle as ethically motivated. The prospects are at present (2017) quite negative.

Endnotes

1 The Arleg study on the Polish economy can be found at ARR, 2013, p. 51.

2 With prof. Ignacy Sachs and UN Undersecretary-general Carlos Lopes we have drawn up an overview of challenges and alternatives, see http://dowbor.org/2010/01/crises-and-opportunities-in-changing-times-jan.html/.

3 On the territorial systemic productivity issue, see in Polish http://dowbor.org/2012/01/produktywnosc-systemowa-terytorium-istotne-pojecie-6.html/ and in English http://dowbor.org/2011/07/territorial-systemic-productivity-a-contribution-to-local-accounting-6.html/.

4 For President Olafur Grimsson on the banking rescue in Iceland, see the short but clear interview on youtube at http://www.youtube.com/watch?v=51-Jfh6ADH0&feature=youtube_gdata_player.

5 For detailed figures on interest rates in Brazil, see Dowbor, 2017, p. 187; and ff – The interest rates figures are hard to believe, but real. They are based on the Brazilian Central Bank statistics, and on direct verification in banks. Usury has become normal.

6 We have presented this issue in a former paper (Dowbor, 2009); The investment/speculation distinction is well grasped by David Korten: *"I grumble every time I hear business reports on the evening news refer to stock market results by saying 'Today, investors [did this or that].' Real investors commit funds and their entrepreneurial energy to creating and growing businesses. People who buy and sell pieces of paper in hopes of making unearned gains on price movements are engaging in speculation, otherwise known as gambling, and those who hold the bets and distribute the winnings are bookies. Simply using honest language would help to distinguish between real investors creating real wealth and speculators creating phantom wealth with financial games."* (Korten, 2009, p. 124) See p. 122 for a list of 12 measures to face the crisis in Korten's analysis.

7 An excellent study of these issues can be found in the IAASTD study, http://www.agassessment.org/reports/IAASTD/EN/Agriculture%20at%20a%20Crossroads_Executive%20Summary%20of%20the%20Synthesis%20Report%20%28English%29.pdf.

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