The Takeover of Social Policy by Financialization

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The Brazilian Paradox

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In memoriam de Ondina e Morais, que me mostraram o rumo.
Para Joana e Manuela, que me mantêm no prumo.

In memory of Ondina and Morais, who showed me the way.
To Joana and Manuela, who keep me on track.

Foreword

The Takeover of Social Policy by Financialization explores three closely related issues, at distinct levels of analysis: first, neoliberalism and financialisation, both as defining features of contemporary capitalism and as drivers of social reproduction; second, financialisation in Brazil, focusing on the macroeconomic and financial policies implemented by the federal administrations led by the Workers' Party (PT, in power between 2003 and 2016); third, the unique, and uniquely significant, role of social policy in Brazilian financialisation. In doing this, *The Takeover of Social Policy by Financialization* offers a searing indictment of the 'social-' or 'neo-' developmentalist model associated with Presidents Luís Inácio Lula da Silva and Dilma Rousseff.

Neoliberalism is the current phase of global capitalism, and financialisation is the economic core of neoliberalism. In country after country, neoliberalism and financialisation have reorganised the processes of production, exchange, distribution and accumulation of value, and led to the emergence of distinctive modes of social reproduction including specific modes of governance, ideologies, and subjectivities. In this context, the financialisation of daily life has intensified the subjection of households to financial markets and processes almost everywhere.

These statements are generally correct but they lack historical content: even though neoliberalism and financialisation are analytically distinctive, they are not homogenising. Instead, they foster diversity and differentiation, with each country and region following an original route towards the new system of accumulation. While the USA, the UK, France, Germany, Italy, Japan and Canada offer interesting but relatively familiar case studies, the transitions in other countries are often not widely known. The case of Australia is particularly relevant in this context. In Australia, governments and trade unions led by the Labor Party agreed to a set of neoliberal reforms in the mid-1980s, which culminated in a dramatic restructuring of Australia's economy and society, the disintegration of those governments, and the demolition of the organised left. The Brazilian case is similar; but it is peculiar in the way left-leaning administrations, trade unions, finance and industry coalesced around a neoliberal programme of economic and social restructuring that was veiled by a 'new' national project: the social-developmentalist model launched by the PT.

Social-developmentalism was validated by the argument that it combined the strengths of neoliberal macroeconomics, which should deliver economic efficiency and market credibility, with the advantages of progressive social and incomes policies that would promote social justice and boost the domestic market. This model of development provided, then, a 'covenant for growth with social inclusion': it would bring about a virtuous circle of economic growth and social equality, eventually turning Brazil into a happy, modern and prosperous Western social-democratic country. Lena Lavinas demonstrates that this was a terribly costly mirage. In particular, that 'covenant' was based upon a financialised and unsustainable pattern of mass consumption sustained by government transfers, subsidies, and permanently rising personal debt.

The Brazilian road to financialisation included two mutually reinforcing tracks. On the one hand, financialisation was parasitical upon, and helped to destroy, the previous system of accumulation based on import-substituting industrialisation. The process of financialisation intensified in the late 1980s, as Brazil embarked on a wholesale transition to neoliberalism. This process was heavily supported by government policy, especially during the administrations led by Presidents Fernando Collor (impeached for corruption in 1992) and Fernando Henrique Cardoso (1995–2002). This is uncontroversial. What is groundbreaking is Lavinas's detailed exposition of the growth of financialisation during the administrations led by the overtly left-wing PT. In this sense, Lavinas's argument is *not* that the PT 'failed' to reform Brazil's economic and social structures, or that it did not do 'enough' to build a cohesive society.

It is far worse: Lavinas shows that the PT's policies were neither simply misguided nor merely unfortunate. They were *perverse*, since they helped to entrench neoliberalism and accelerate the financialisation of the Brazilian economy and society. This happened through several channels;

key among them was the explosive growth of consumer credit and the (closely related) expansion of transfers, which were at the core of the PT's flagship social policies. Those transfers were meant not only to alleviate extreme poverty, but also to provide collateral for personal loans, credit cards, insurance and the sale of other financial services and assets to virgin markets populated by tens of millions of workers that were misleadingly called 'the new middle class'. The capture of those social groups into financial structures and processes during the PT administrations was intensified by 'consigned' bank loans, paid through deductions coming directly from the wage packets, pensions and benefit payments. This type of loan was promoted by an unholy alliance including the federal government, PT-led trade unions, industry, private health and education providers and, of course, banks and insurance companies. Consigned loans drastically reduced bank costs; credit became cheaper, safer and widely available, and borrowing was normalised formillions of people. The financialisation of daily life proceeded apace under the PT.

Lavinas shows in precise detail how and why this model of growth was flawed. For example, while the global winds were favourable, the Brazilian road to financialisation was funded by the country's booming primary exports. However, the government's neoliberal macroeconomic policies also fuelled perverse international flows of capital, the overvaluation of the currency and a process of premature deindustrialisation that drastically reduced the scope for generating incomes to support jobs, transfers, the repayment of loans and the wider distribution of income. This was worse than ignorance, and more perverse than neglect: Lavinas shows that the PT governments maintained course despite the glaring insufficiencies of social developmentalism, the alarm expressed even by the party's supporters and the economy's rapid loss of dynamism since2011. As the world became bogged down in the longest crisis since the Great Depression, the model of growth associated with the PT increasingly had to rely on public sector subsidies, tax rebates and transfers, which eroded the fiscal balance, and on personal loans, that turbo-charged the financialisation of daily life. This way, the government drilled into its own foundations. The Brazilian economy entered the longest and deepest depression in its recorded history; the opposition turned feral, and the Rousseff administration was impeached on trumped-up charges. The PT suffered an unprecedented—but not wholly unpredictable—cataclysm.

There is nothing to suggest that the putschist administration will address the previous policy shortcomings constructively, rebalance the economy, distribute income more efficiently or reverse financialisation. Quite the contrary. The Brazilian paradox identified by Lena Lavinas remains firmly in place, now with new layers of complexity and even greater iniquities. This book is essential to appreciate them, and to find out how Brazil came into its current predicament. Those painful realities cannot be challenged without appropriate understanding. This book is, then, not only brilliant; it is also essential reading for our bleak times.

Alfredo Saad-Filho
London, September 2016

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