IIPPE – International Initiative for Promoting Political Economy

Brazil: ongoing reforms under a new wave of financialization

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Argument

(Mass-based) financialization (1990's-2010's) "paved the way" for major liberalizing reforms (2015-2017) and dismantling of Social Security

- Finn: mechanisms for ideological, institutional, financial dismantling of SS
- With "taking-over" by private/financial capital
- During the Worker's Party: isolated, cumulative pressures
- 2014: new political and economic landscape
- Favorable context to recent wave of **structural reforms** (labor market, outsourcing, pensions, …)
- Faster and **permanent dismantling of Social Security**
- **Strengthening "financialization"**
- **Social implications**

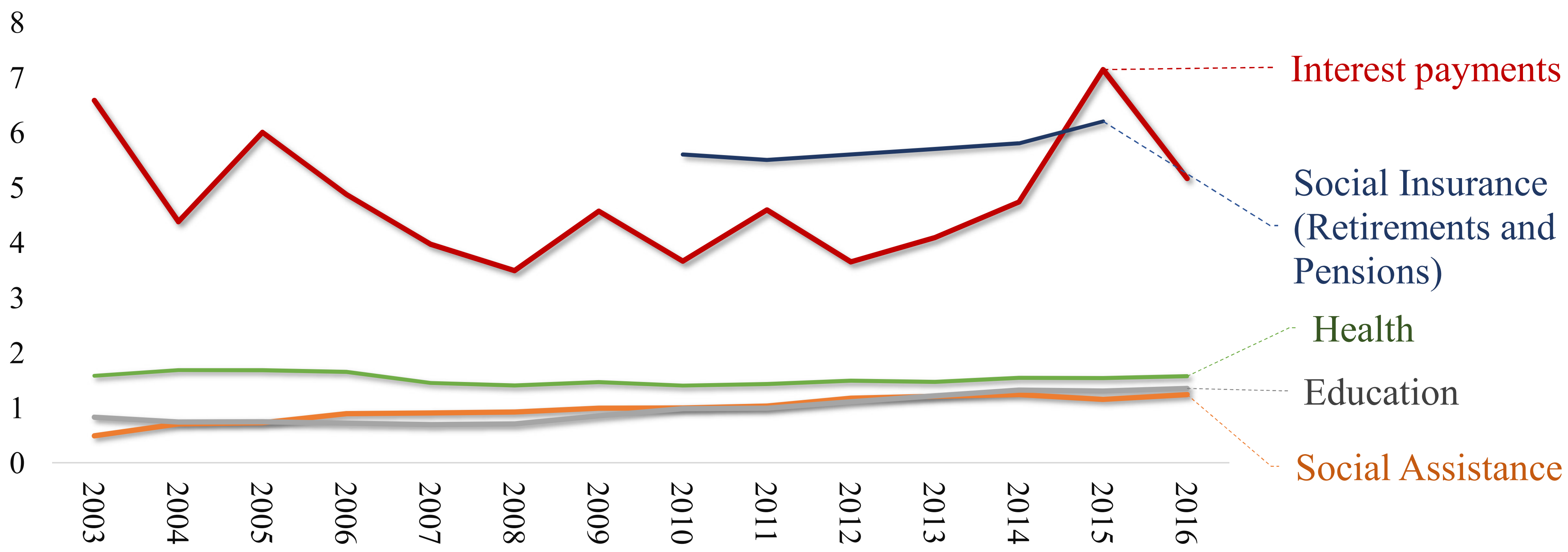
Periodization of Financialization in Brazil (Lavinas et al., 2017)

1970-1980 Absent	1981-1994 Financialization via Public Debt	1995-2017 "Mass-based" Financialization
Favorable context (financial innovations against inflation)	Restricted, Eliticized	High, Expanded
	Rentier accumulation	Diversification of financial incomes over public and private debt (households, non-fin companies)
	Indexation gains over public contracts	Subversion of Public Welfare

Financialization via Public and Private Debt

- **Massive reorientation of fiscal resources to financial sector (rentiers – public debt)**
  - Interest payments: 8.5% of GDP in 2015
  - Primary fiscal surpluses for financial expenditures (rather than "real" investments)
- **Consumer credit boom**
  - Including for typical "welfare" services
  - Backed up by the State (wages, pension benefits, student loans)
- **Taking over" of social policy sectors**
  - Private insurance plans (health, pensions, unemployment), Education loans, new financial products…
- Credit to households: from approx**. <u>6% to 25% GDP (2001-2016)</u>**
- HH Indebtedness: **<u>from 21% to 42% of disp income (2005-2016)</u>**

Distribution of Financial and Social Expenditures - Central Government (% GDP)

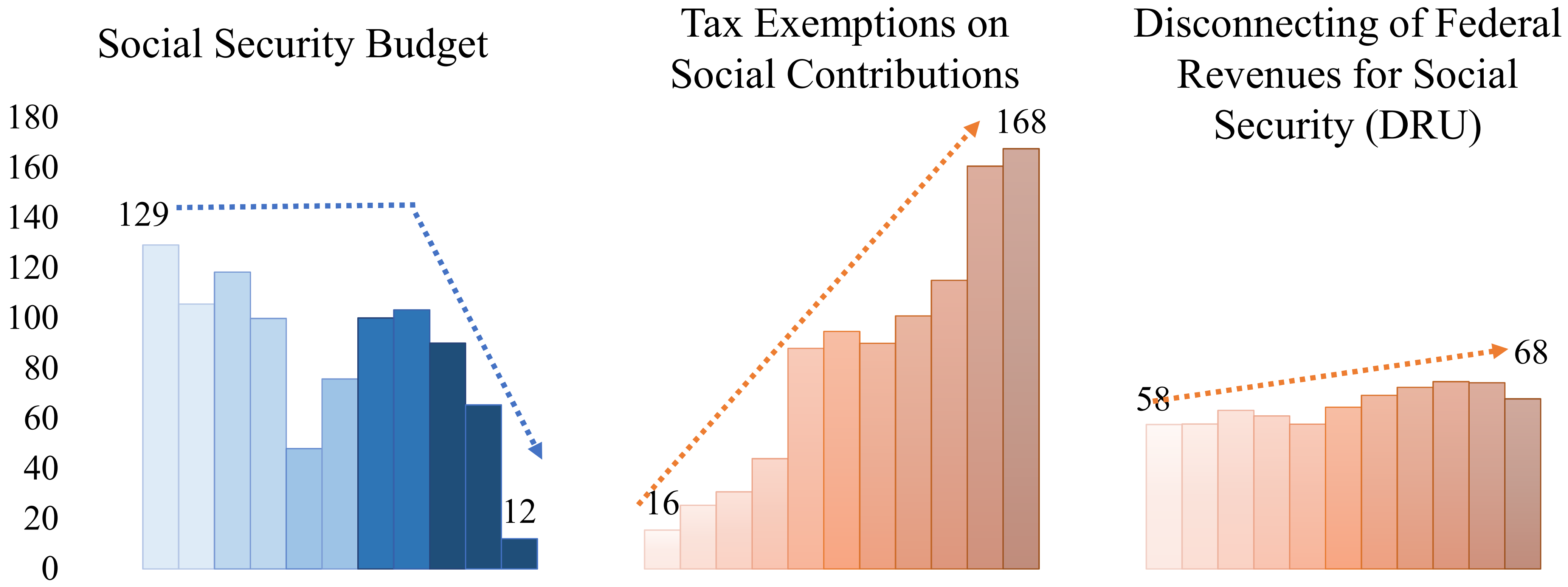


Source: for Social Insurance, Ministry of Pensions Database (INFOLOGO) and “Anuário Estatistico da Previdencia Social” (2015); excludes accident and assistential benefits. For other social expenditures, SIAFI. For interest payments and GDP, Brazilian Central Bank.

Financialization subverts Social Security

- Financialization creates/supports mechanisms that simultaneously:
  - → Dismantle Social Security (underfinancing and poor quality of public provision)
  - → “Supports “compensation” by private/financial sector
    - → “Supply”: creation of different types of private/financial products
    - → “Demand”: facilitate access by households
- Under the Worker’s Party: isolated pressures, growing and “accumulating”
- Now, underfinancing and poor quality used to justify liberalization
  - Tax exemptions and disconnecting of social contributions
  - Tax incentives for private Pensions and Healthcare spending
  - Default of pensions contributions by private companies
  - Default of private healthcare plans to public healthcare system
  - Subsidized public credit to private health and banking sector
  - Regulatory changes (cap also on public pensions, fully-funded plans for civil servants, openess of health sector to foreing investors,…)

For the sake of illustration…
Social Security Budget and (some) withdrawls, 2005-2015 (BRL Billions as of 2016)



Source: ANFIP and Receita Federal. Own ekaboration. Constant values as of 2016, adjusted by the Extended National Consumer Price Index (IPCA). Alternative values are presented by the Ministry of Finance, but following similar trends.

New economic and political landscape

Unprecedented economic and political crisis (2014-2017):

- Decreasing commodity prices, GDP, employment
- Political disruptions and radicalization
- Corruption scandals and investigations (2014): “Operation Car Wash”
- Conservative political hegemony in 2015 under Dilma Roussef (Worker’s Party)
- Dilma’s Impeachment (2016)
- Disruption of the previous political coalition
- Takeover by conservative forces

New paths for welfare reforms

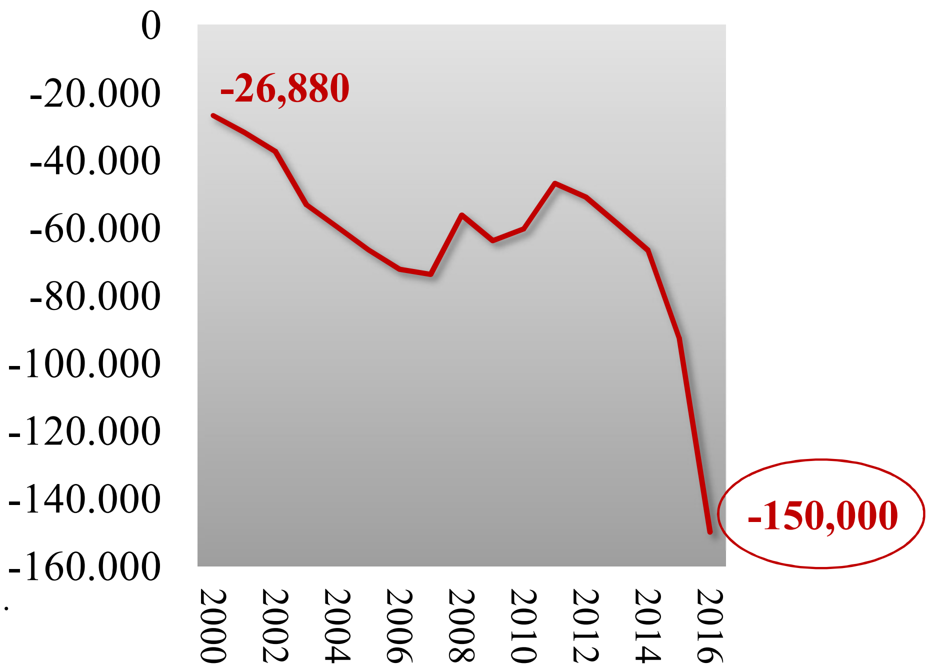
- Constitutional reforms focusing on social rights: "*The Constitution doesn't fit the budget*"
- (Social) reforms as "the way out of the crisis"
- New wave of reforms: constitutional, structural, permanent
- Chronical and permanent underfinancing of public provision, even after economic recovery

3 main reforms underway, following the freezing of public spending

- **Budget ceiling (2016)**
  - Freeze public spending for 20 years (adjusted for inflation only)
  - Cap on fiscal (including social) spending; not on interest payments
  - “Inherent” destruction of SS. Following reforms are a “natural” consequence.
- **Reforms (2017)**
  - **Outsourcing (approved) –** almost illimited outsourcing, including final activities
  - **Labor Code (approved) –** more than 100 amendments
  - **Pension System (underway) and further restrictions on anti-poverty schemes –** harder access, lower benefits, increase individual plans and private management for civil serv. system
- **Some implications:**
  - Disincentives to the public pension system (contributory PAYG)
  - Negative impact on the SS budget (collection of social contributions)
  - Pushing for fully-funded private schemes, run by private financial institutions
  - Growing poverty among precarious workers and the elderly; regional and social inequalities

Example: Pensions - Financial results for Public and Private Sector

General PAYG System: Final Budget



Listed Fully-Funded Pensions & Health Insurers: Profits and Market Value (MV)

	Net Profits (2016)	MV (2017)	MV Growth (since opening)
BB Seguridade	4,013	56,640	31 %
Porto Seguro	911	10,022	226 %
Sul America	698	6,949	43 %
Aliança da Bahia PAR	67	202	274 %
Aliança da Bahia SEG	67	192	300 %

Source: Ministry of Social Insurance, DataStream and BMF BOVESPA. Own elaboration. BRL Millions as of 2016, adjusted by IPCA.

Final Remarks

The path of "mass financialization" since the 2000s paved the way for the ongoing, neoliberal reforms in Brazilian Welfare

- Institution and financial weakening of Public Social Security

Political disruption is deepening the dismantling of the Social Security System

- Permanent, structural reforms; State expenditures cannot rise even after economic recovery

Public welfare is being used to amplify the ongoing process of financialization, with important social impacts:

- Main goal: profits, not citizenship rights
- Aggravates inequality, since access is income-related
- From "real" to "fictitious" economy
- "Financialized" society: chronically unequal and deeply indebted

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Thank you

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