



Socioeconomic Challenges and Crisis: Brazilian Illustration and the Search for a New Paradigm

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Abstract

- Economic Neoliberalism in its most perverse form has been recapturing the imagination of policy makers in Brazil and abroad. It emerges in the context of the present stagflation, increasing unemployment and lack of sustainability concerning the accounts of the public sector.
- Actually, we need a careful socioeconomic, environmental and political programme to deal with the roots of the problems. This article contains insights towards the search of a new paradigm for those concerned with the required top-down reforms not just in Brazil, but worldwide.

INTRODUCTION

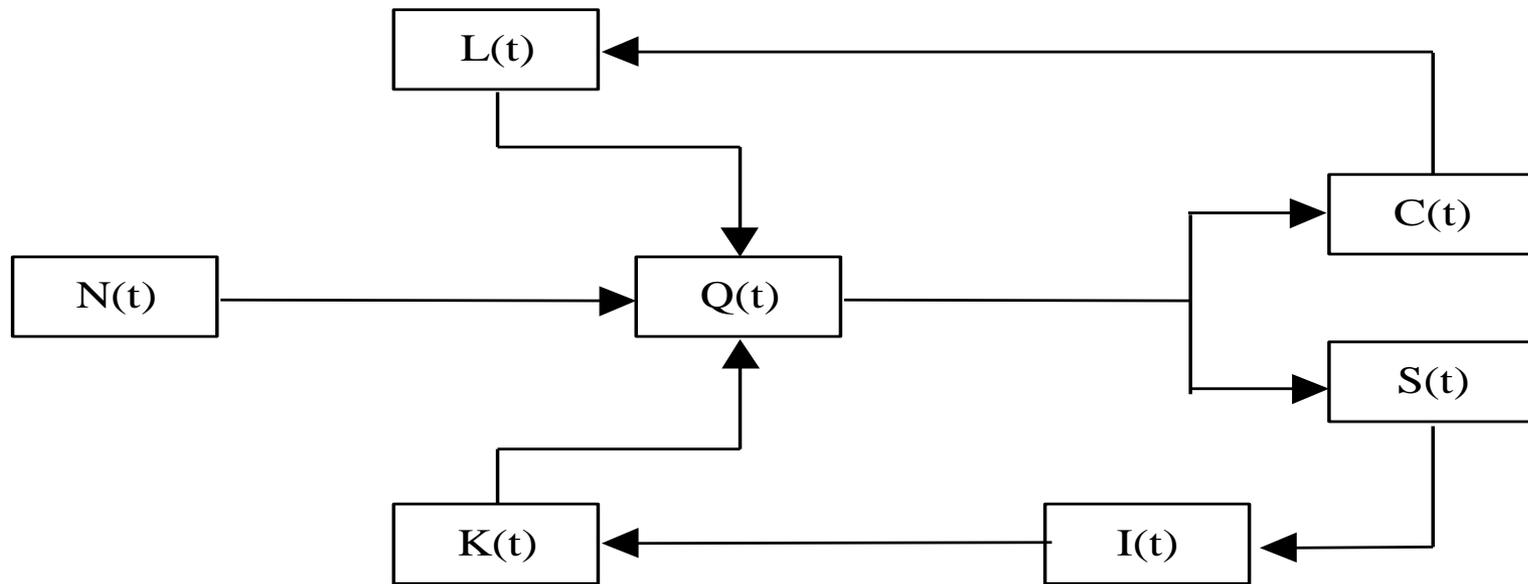
- Besides, damaged infrastructural apparatus and non-functional strategies, corruption, fragile institutional arrangements lead to considerable problems. When the wrongdoing involves ignoring lamentable political stress and persisting in treatments that are not working, we cannot excuse the heavy State apparatus from the roots of such affairs.
- On the other hand, it is rather suspicious to suggest that the market is prepared to guide its proper role, without fair controls, our economy and institutions.

AGGREGATED ECONOMY AND EXTENSIONS

- Dominant Approach
 - The primary resource, the technological transformation possibilities, and the preference structure to be given.
 - The substitution principle is supposed to operate in both commodity and factors markets.
 - Consumers maximise utility, given the set of possibilities, prices of commodities and the budget constraints.
 - Producers maximise profits, given the transformation possibilities and prices.

AGGREGATED ECONOMY AND EXTENSIONS

- Dominant Approach
 - Assuming perfect competition, well behaved demand and supply relations, given the substitution principle, the system would fully utilize capital and labour since they are supposed to be payable according to their marginal contribution.
 - The structure underlying such oversimplified vision tends to be perverse since, for instance, the prices of the environment / exhaustible resources are not taken into account world.



Aggregated Economy and Extensions

AGGREGATED ECONOMY AND EXTENSIONS

- More General Scheme
 - There are some relevant structural components missing in figure 1
 - Mollo & Teixeira (2008) argue that production, investment, finance, technological change, distribution of income, institutional considerations depend on macroeconomic conditions that have to be built, for what it is necessary a role of the State.
 - Dynamic configurations cannot be ignored, since they provide the boundary conditions allowing firms and consumers to function.
 - A profound appreciation of the environment is also fundamental from the point of view of a long-term perspective.

AGGREGATED ECONOMY AND EXTENSIONS

- More General Scheme
 - Such complex process cannot be conducted without a proper State participation.
 - Adequate regulation is still more important in a situation of significant inequality of wealth, income and political power.
 - Financial conditions are responsible for the pace of investment and innovation.
 - A profit-flows-based analysis of a real world economy requires that the scheme include money and the banking from the very beginning.
 - Fig. 2 is an expanded scheme of figure 1 and shows some fundamental improvements with regard to the previous one.

BRAZILIAN ECONOMY FROM A RECENT PERSPECTIVE

- Traditionally, the presence of persistent high inflation in Brazil is due to the diverse use of formal and informal backward-looking indexation mechanisms to protect financial assets and personal wealth from inflation-related uninsurable risks.
- Such financial innovations and indexation mechanisms tend to protect the upper and middle class and, in this way, to increase the concentration of income and wealth. Furthermore, diverse governments in Brazil did have difficulties to eliminate price distortions, structural bottlenecks, to attain stability and sustainable growth.

BRAZILIAN ECONOMY FROM A RECENT PERSPECTIVE

- Besides, troubles with the public debt and lack of international economic competitiveness have been the actual performance of the economy till the late XX century.
- In period of crises, and in conformity with the “*orthodox wisdom*” established by the Washington Consensus, the Brazilian government, quite frequently supported by the IMF, set in motion unsuccessful macro-economic stabilization processes.

BRAZILIAN ECONOMY FROM A RECENT PERSPECTIVE

- During the presidential administration of Luiz Inácio Lula da Silva (2003-06 and 2007-2010), redistribution of income combined with expansion of wages and a certain control on the exchange rates and on the international movements of capital, allowed a known expansion of what has been called expansion of the middle class, household borrowing and improvement in the creation of new jobs.
- At that period, Congress was dominated by a coalition of various forces, most of which supported an expansionary strategy of economic growth and distributive economic policies.

BRAZILIAN ECONOMY FROM A RECENT PERSPECTIVE

- This period was followed by the one in which Dilma Rousseff (2011-2014) turned to be the president of the Country.
- It may be argued that their administrations had delivered, for a time, significant gains in growth, employment and social equity, but they have been hampered by both recent global stagnation and the consequences of their own economic choices.
- Part of this argument is not too robust.

Fig.3 Brazilian Perspective of the Washington Consensus

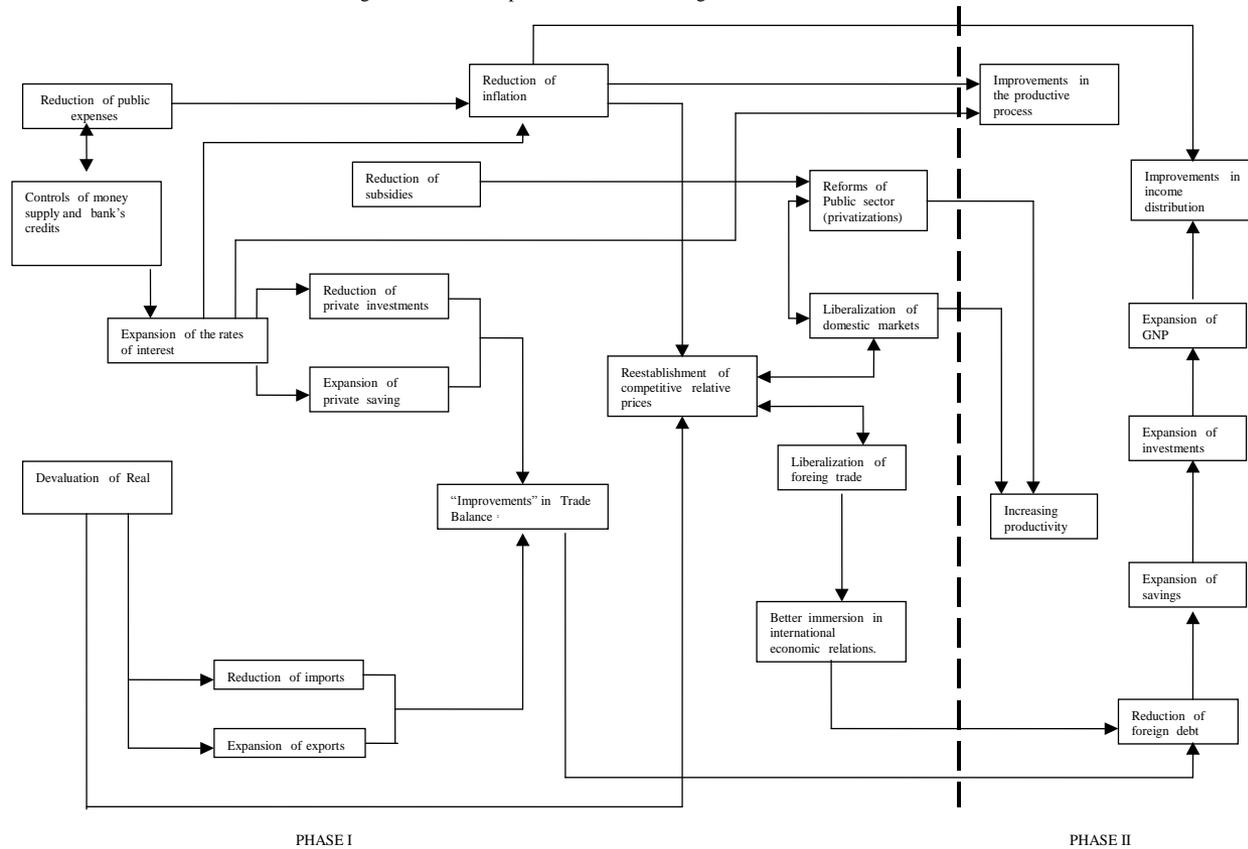


Fig. 3 Brazilian Perspective of the Washington Consensus

SOME FUNDAMENTAL QUESTIONS

- i) Why do the sympathizers of the Washington Consensus deliver the same medicine to each ailing developing country?
- ii) Is it the case that the proposed policies are only introduced if they are in the interests of the domestic oligarchy who will retain wealth and privilege whatever its socioeconomic impact on the people of a nation?

SOME FUNDAMENTAL QUESTIONS

- iii) Why do orthodox packages of austerity adjustment systematically bring about recession, unemployment and further polarization of income and wealth in countries with basically no social safety nets to protect ordinary people?
- iv) Why is it that the financial system is so fiercely protected in its speculative operations around the world?

SOME FUNDAMENTAL QUESTIONS

- v) Are the conventional policies implemented because it is believed they really overcome crisis in developing countries or they are mainly designed to benefit financial interest in the domestic and advanced capitalist world?
- vi) Why, in theory, do the financial authorities support democratic institutions when, in practice, they undermine the democratic process by imposing imprudent policies that hurt ordinary people and lead to social turmoil and democratic setbacks?

SOME FUNDAMENTAL QUESTIONS

- vii) Why the adjustment crusade for internal balance (fiscal responsibility) and external balance (current account equilibrium) is always pushing for the reduction of real wages?
- viii) Last but not least, what should be a fair fiscal and monetary stance of developing countries in face of recession or economic downturn?

SOME FUNDAMENTAL QUESTIONS

- These are some fundamental questions requiring convincing reply.
- Unfortunately the proponents of Washington Consensus prefer to go about their pragmatic approach without answering relevant questions.
- The country needs sounder socioeconomic policies to guarantee the necessary conditions for stability, equilibrium, growth, distribution, and environmental sustainability.

SOME FUNDAMENTAL QUESTIONS

- The required fundamentals may involve a new set of components:
 - i) adequate real rate of interest;
 - ii) inflation rate similar to the main international partners;
 - iii) stable and sustainable budget adjustment to achieve long-run equilibrium;
 - iv) competitive and predictable exchange rate;

SOME FUNDAMENTAL QUESTIONS

- The required fundamentals may involve a new set of components:
 - v) creation of jobs;
 - vi) improved distribution of income and reduction of public discontentment;
 - vii) to create safety nets to protect the common citizen;
 - viii) environmental sustainability for the present and future generations.

CONCLUDING THOUGHTS

- An straightforward conclusion of our article is that the potential fruitful scientific cooperation among economics and other social sciences need to be strongly emphasised if society as a whole is to be able to successfully face the multi-dimensional challenges posed by an expanding range of environmental issues.
- Of course, this task requires a kind of profound rethinking of the conventional accounting system.