EQUALITY, THE MEDICINE TO MITIGATE CORONAVIRUS’ IMPACT ON THE ECONOMY

Marcelo Neri, economist, director of FGV Social, defends that the government first support the poorest, also giving them more resources, in order to fight the crisis linked to the Covid-19 pandemic in the country.

The economist Marcelo Neri was giving a lecture at Fundação Getulio Vargas, in Rio de Janeiro, when he realized, together with his students, that adopting social isolation to face the spread of the coronavirus would be inevitable. “We recognized that we would have to stop. It is a new world, thirty minutes ago my world was different from what it is now. It is a massive change. This pandemic affects the most basic emotion that is the struggle for survival.” And it is about the survival of the poorest Brazilians who eventually will be the most affected by the economic consequences of this health crisis that the researcher and director of FGV Social discusses in this interview. “But it is mainly a health crisis, we have to keep this in mind, including its higher costs”, he asserts. Neri was the Minister of Strategic Affairs in Brazil between 2013 and 2015.

CIÊNCIA HOJE: Will coronavirus’ impacts on the world economy be as devastating as in health?

MARCELO NERI: Nothing is more devastating than losing lives, and forecasts from epidemiologists depict harsh scenarios. Regarding the economy, what also makes this crisis concerning is the necessity of social isolation: a precarious but fundamental strategy to delay the problem. This isolation policy provokes a full stop in the economy and may be comparable to the Great Depression in 1929. The latter was not only deep but also long, the former may be less severe and, hopefully, shorter.

CH: What are the effects on the Brazilian economy?

NERI: We do not know the duration of this crisis. But the necessity of social isolation makes the economy sluggish; people stop generating income, stop working and this brings a socioeconomic outcome that, in the end, will possibly affect more the poorest segments of society. This is an atypical crisis because it started in China, but is rapidly spreading in the other largest economy of the world, the United States, and in rich European countries. In the Brazilian case, the crisis begins after five harsh years of social crisis, mainly for the poorest Brazilians. Between 2014 and 2019, the mean income of an average Brazilian fell approximately 2%, but the mean income of the poorest 5% Brazilians plummeted 39%. Therefore, the economy was already debilitated, and after showing the first signs of recovery, a new crisis arises, bringing consequences that are still hard to estimate. The combination of all these factors brings uncertainty and unsafety.

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CH: In Brazil, informal workers who correspond to more than 40% of the occupied Brazilian population are probably going to be the most affected. Who are they?

NERI: These Brazilians working in the informal economy have different profiles and are divided into two major groups. Around 18 million of them are poor employees, without a formal job, thus without any working right, and 24 million are small entrepreneurs, self-employed or small employers. These two groups are very different; one is a capitalist mostly without capital, living based on his profit. In this crisis, their income does not go to zero, it becomes negative in many cases. The informal employee may also lose his/her job without layoff possibility present in the law. The main common characteristic between these both groups is their lack of social protection.

The good news is that Brazil does have an established social safety net, with immediate capacity to reach the poorest citizens, including those in the informal economy. I am speaking here about the Brazilians covered by the Bolsa Família (the Family Grant is the main cash transfer in Brazil). This program reaches a large share of the population — about 40 million people, that is 20% of the Brazilian population. It has already reached 25% of the population. There is also the Cadastro Único (Single Registry), a tool developed by a partnership between the federal government and many municipal governments in Brazil that underpins the Bolsa Família. Currently, there are 27 million families registered in this Single Registry, in which 13 million are also receiving the Bolsa Família. The other 14 million families are not income-eligible for the cash transfer program, but they still have per capita family income below a half minimum wage. The Single Registry can be used to support the poorest families, designing policies, etc. It is an easy solution that must be implemented given its positive effect on social well-being.
CH: How do you assess the actions taken by the government so far to reduce the pandemic’s impact on the economy and the lives of the poorest Brazilians?

NERI: The government announced initially a R$ 160 billion stimulus expenditure, however, less than R$ 20 billion are truly new money. The other R$ 140 billion are actually money that is going to be spent in anticipation, such as the thirteenth wage and the wage bonus for poor formal employees, in addition to a postponement in the deadline to pay taxes for both companies and workers. These measures are welcome and go in the right direction, but the government should not announce that it will spend R$ 160 billion. The actual size of the economic stimulus is R$ 20 billion. Moreover, the reallocation of R$ 140 billion is not the medicine that will save the economy in the long run. It is only anaesthesia, not the actual operation to the patient. Meanwhile, what is actually new money into the economy is the R$ 3.1 billion to expand the Bolsa Família’s payroll and the R$ 15 billion to people that are in the Single Registry. Using this value it is possible to offer R$ 200 (now R$ 600) for three months to those individuals part of the Single Registry. However, we could use this helpful tool to try to differentiate the situation of all the members of the Single Registry and efficiently spend this money, for example, by giving more money to the poorest registered families. Universal criteria could work for more developed economies, but, in economies with our level of inequality and complexity, we should treat people differently according to their differences.

It is possible to actually do more than offering R$ 200 (now R$ 600) for informal workers, but I do think that, in relation to all the actions announced by the government, this is the most generous and intelligent one, and can only be improved. It is a positive critique. Looking at the stimulus package as a whole, it is insufficient to meet our necessities in this crisis. It is true that Brazil faces a complex fiscal situation; and that in the past, for example in the 2008 crisis, we have adopted expansionist policies for too long, which is also inappropriate. Back then, the choice was to spend a lot for a long time, but now we are going to the other direction, spending not much for a short time. Both paths have problems, we should pick a middle path.

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CH: What else can be done? And How?

NERI: Extreme poverty in Brazil raised 71% between 2014 and 2018. The crisis has already affected this group of the population and nothing has been done to support them. By readjusting the Bolsa Família’s benefit, which is lagged by 18,8% to what it has already been, the government will spend 0.1% of the GDP (Gross Domestic Product). It is really cheap. We are going to address the public that is part of the Single Registry by targeting those who are most in need. We cannot have a soft heart and a hard-head. We have to use science in our favour, and Brazil has a lot of science regarding poverty and inequality. We already have the platform to address these problems, and during a crisis, everything becomes even more urgent. All
measures proposed by the government go in the right direction but is not enough when we consider the amount of resources being spent. In the last five years, Brazil left its poorest citizens behind, and during a crisis like the one we are facing now, we have to recognize that they are more vulnerable and that there are solutions available to protect them. It is a political matter. Indicators are showing that if the measures are best targeted to the poor, the largest will be the impact on the economy and the expansionist effect of the policy. At the FGV Social / Center for Social Policies website (see cps.fgv.br/en/covidage), there are researches and data sets available for citizens and policy-makers to access in order to better understand how to face this pandemic.

**CH:** What are your impressions about a universal basic income?

NERI: For a developed country, a more egalitarian country, it could be a solution. But for Brazil – and even for the United States – and do not think it is a solution. Brazil already spends a lot and still has huge inequality. One example: before the crisis, if you wanted to tackle poverty and gave the same amount to an informal worker – going beyond those enrolled in the Single Registry – you would spend 36 times more than if you gave every one of them the exact amount of money they needed to be lifted to the poverty line. Thus, you would reach fewer people spending considerably more. The best solution involves equity and efficiency. We have to use the generous spirit of the universal basic income, but give more to those in the most need. I am an enthusiast of the idea of helping the population, of emphasizing that the state has a fundamental role in society, but I believe it should act through more sophisticated programs, especially because of the importance of its role.

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**CH:** Restricted by austerity policies, the government faces the challenge of keeping public finances healthy under the attack of the coronavirus. Is this possible?

NERI: In addition to comparing the current situation with the Great Depression, another comparison we could make is with the recession of 2008, which was not as severe as the one in 1929 because mitigation policies were implemented. One of the main pilots of the 2008 crisis was the FED president (United States Central Bank), Ben Bernanke, who studied the Great Depression during all his academic life. He was the right guy in the right place. Here in Brazil, we have a Minister of Finance who is skilled, coming from Chicago University, but his script is: “we have to do a fiscal adjustment”, and now we have to do the exact opposite, for good reasons, to mitigate the crisis’ effects. It will be a test for him to adapt to this unexpected situation. Despite the coronavirus crisis, it is a fact that we do not need to demolish the government spending ceiling. By declaring a state of public calamity, national emergency, it is possible to address all demands keeping the fiscal ceiling. What concerns me the most is the lack of endeavour.
CH: The pandemic tends to put pro-market ideologies into question because the state will need to act more decisively during this sanitary and economic crisis. How do you see this claim?

NERI: At a global perspective, the election of Donald Trump and other right-wing leaders around the world were an outcome of the 2008 crisis. Despite being a financial crisis, it also turned people more individualistic, less prone to think about the collective will. However, this is exactly what we need now. We are facing a global crisis, so if countries, governments, societies, and the private sector decide to cooperate, the results will be better for everyone. The United States, which are probably the leading figure in this trend, present severe problems in their public health system, showing the fragility of the market system to deal with health issues. They have a captured private health system that works poorly, wastes resources, does lobbying, etc. There are countries currently aligned to neoliberal principles – I do not like this categorization – that are not facing the same issues. England, a partner of the US in many aspects, has a national health system that is probably the best in the world, which also bears similarities with the Brazilian health system. A parenthesis here: we throw the SUS (The Unified Health System, Brazilian public health system acronym) in the garbage, but it is a rare tool and it will help a lot to face the current crisis. The market will not redistribute money or assets that are going to help stopping the pandemic to spread, this is the state’s role. It is not healthy, in a world that is already too polarized, to create a clash between the market and the state. We need to create a middle path that combines both elements. In the Brazilian case, the state is broken and will have to use all of its reserves to face this crisis. We cannot keep saving money while people are dying.

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CH: You wrote an article for Ciência Hoje in 2014 about Angus Deaton, Nobel in Economics². Now he is launching with Anne Case the book “Deaths of Despair and the Future of Capitalism”, which shows the reduction in life expectancy in the US provoked by deaths on alcohol, suicide, drug addiction, etc. Can you assess if this will be enlarged in the economic crisis that will follow the coronavirus pandemic?

NERI: The book presents how a rich country sees itself in the middle of a health crisis. And, in the US, the deaths of despair are observed among white citizens, not blacks or hispanics. The low educated white Americans are dying due to a opioid pandemic, suicides, and abuses in the consumption of alcohol and other drugs. It is a public health problem of another nature, but it reveals the consequences of a society without regulation, without a present state looking for the health of its citizens. It also shows how necessary is the use of empirical evidence today. We must look for the root of the problem, and, sometimes, the root is not located where we first imagined they would be. We will not find answers in the past to fight this Covid-19 crisis. It is happening now, presenting subtleties as in the opioid crisis in the US. The most affected individuals are not necessarily the most expected ones. We have to look, collect data, use science. This coronavirus crisis started because of a new virus, but it found a fertile terrain for change. The world will be different from now on.