



STUDY GUIDE

HOW SOCIALISM RUINED MY COUNTRY

KEY TERMS:

millennial
income redistribution

Socialism
social justice

Capitalism
corruption

NOTE-TAKING COLUMN: Complete this section during the video. Include definitions and key terms.

CUE COLUMN: Complete this section after the video.

What economic promise did the media, academic elite, and celebrities make to the Brazilian people?

In what ways did Brazil drastically change between 2000 and 2015?

How much did government spending grow in comparison to tax revenues between 2008-2015 in Brazil?

What specific factors have contributed to Brazil's current economic, political, and social woes?

Where does Brazil rank internationally in terms of education and health care?

DISCUSSION & REVIEW QUESTIONS:

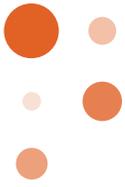
- At the beginning of the video, Mr. Brasil notes that, “Many American millennials seem to be drawn to socialism. They came out in big numbers for Bernie Sanders in the 2016 presidential primaries. They rail against capitalism on their college campuses. They wear Che Guevara t-shirts to signal their socialist virtue.” Why do you think that this is the case? What might millennials find so appealing about Socialism? Do you think that millennials have a correct understanding of Socialism and a broad historical context for the failures of Socialism? Why or why not?
- Later, when describing the message that socialist president Lula ran on, Mr. Brasil points out that, “...the old message about the need for income redistribution to decrease inequality was still there. The media, academic elite and celebrities assured Brazilians that by distributing the money from the rich to the poor, the poor could finally be richer.” Why do you think that the ‘income redistribution’ model still holds such popular appeal even though it has never worked? Why do you think that so many Brazilians voted for a change from the capitalist model that was already proving to be so successful? Do you think that funneling money towards the poor is actually what’s in their best interest, or would incentivizing and helping the poor to earn more money and not become dependent on the government be better for them?
- When Mr. Brasil goes on to describe how Lula and his successor, Dilma Rousseff, applied socialist policies and shares with us that, “The socialists increased government spending, deficits, and debt. They called it a stimulus. They increased the minimum wage and the benefits of social programs. They called it social justice.” Why do you think that not enough Brazilians bothered to ask challenging questions such as, “Stimulus for what” “Social justice for whom?” and “What kind of social justice is it when higher minimum wages force more lower-skilled people out of jobs?” Why do you think that Socialists value and utilize ‘feel-good’ platitudes rather than sound, ‘do-good’ economic policies?
- Mr. Brasil continues to describe the consequences of the Socialist regime: “...government spending just kept going up and then Lula’s socialist paradise fell apart, and the economy fell with it. The outcome: from 2008 to 2015, government spending grew nearly four times as fast as tax revenue. The economy shrank 3.8 percent in 2015, the worst result in 25 years... Out of 189 countries, we rank 174th in terms of how easy it is to start a business, 130th in registering property with the government, and 178th in the simplicity of paying taxes.” Why do you think that the socialist policies didn’t work?
- At the end of the video, Mr. Brasil laments that, “Economically and morally, the almost 15 years of Socialist policies have greatly harmed Brazil. We also remain among the world’s leaders in murder and robbery, and we rank near the bottom of industrialized nations in terms of education and health care... Truthfully, the damage has been so extensive, it may take decades for the country to recover. But if we do, it won’t be socialism that saves us.” What do you think Mr. Brasil means by this last statement? Why do you think that millennials tend to conflate social issues with economic issues, without seeing that the proven capitalist model is the one that will actually be able to sustainably contribute towards funding social welfare programs and helping all people in a nation elevate their economic status?

EXTEND THE LEARNING:

CASE STUDY: Dilma Rousseff

INSTRUCTIONS: Read the article “Brazil’s fall,” then answer the questions that follow.

- Why can’t Brazil’s central bank use monetary policies to fight inflation? How much have the minimum wage and pension benefits risen over the past decade? What is one reason that Brazil’s manufacturing productivity is the fourth lowest among 41 countries?
- What do you think the relationship is between socialist policies and the deep corruption in Brazil, if any? Explain.
- The author of the article claims that, “...Ms Rousseff and her left-wing Workers’ Party (PT) have made a bad situation much worse.” What specific evidence does the author give for this claim? Does this article support the points of the presenter in the video? If no, why not? If yes, in what ways?



QUIZ

HOW SOCIALISM RUINED MY COUNTRY

1. How was Brazil's economy in the early 2000s?

- a. Abysmal
- b. Declining
- c. Stagnant
- d. Growing rapidly

2. What happened in Brazil in 2002 that greatly affected the future of Brazil?

- a. The socialist politician Lula da Silva was elected president.
- b. The socialist politician Dilma Rousseff was elected president.
- c. The sharp decline in the value of the American dollar.
- d. An agreement to become a territory of Peru.

3. What did Socialist policies do for Brazil?

- a. Strengthened its economy.
- b. Reduced murder and robbery rates.
- c. Made it easier to open businesses.
- d. None of the above.

4. Dilma Rousseff was impeached in 2016 for falsifying the government's finances, and illegally using money from state-owned banks to run the government.

- a. True
- b. False

5. Income redistribution in Brazil made the poor _____.

- a. richer
- b. poorer
- c. happier
- d. employable



QUIZ - ANSWER KEY

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<http://www.economist.com/news/leaders/21684779-disaster-looms-latin-americas-biggest-economy-brazils-fall>

Latin America

Brazil's fall

Disaster looms for Latin America's biggest economy



From the print edition | Leaders

Jan 2nd 2016

AT THE start of 2016 Brazil should be in an exuberant mood. Rio de Janeiro is to host South America's first Olympic games in August, giving Brazilians a chance to embark on what they do best: throwing a really spectacular party. Instead, Brazil faces political and economic disaster.

On December 16th Fitch became the second of the three big credit-rating agencies to downgrade Brazil's debt to junk status. Days later Joaquim Levy, the finance minister appointed by the president, Dilma Rousseff, to stabilise the public finances, quit in despair after less than a year in the job. Brazil's economy is predicted to shrink by 2.5-3% in 2016, not much less than it did in 2015. Even oil-rich, sanction-racked Russia stands to do better. At the same time, Brazil's governing coalition has been discredited by a gargantuan bribery scandal surrounding Petrobras, a state-controlled oil company. And Ms Rousseff, accused of hiding the size of the budget deficit, faces impeachment proceedings in Congress.

As the B in BRICS, Brazil is supposed to be in the vanguard of fast-growing emerging economies. Instead it faces political dysfunction and perhaps a return to rampant inflation. Only hard choices can put Brazil back on course. Just now, Ms Rousseff does not seem to have the stomach for them.

Dismal Dilma

Brazil's suffering, like that of other emerging economies, stems partly from the fall in global commodity prices. But Ms Rousseff and her left-wing Workers' Party (PT) have made a bad situation much worse. During her first term, in 2011-14, she spent extravagantly and unwisely on higher pensions and unproductive tax breaks for favoured industries. The fiscal deficit swelled from 2% of GDP in 2010 to 10% in 2015.

Brazil's crisis managers do not have the luxury of waiting for better times to begin reform (see article). At 70% of GDP, public debt is worryingly large for a middle-income country and rising fast. Because of high interest rates, the cost of servicing it is a crushing 7% of GDP. The Central Bank cannot easily use monetary policy to fight inflation, currently 10.5%, as higher rates risk destabilising the public finances even more by adding to the interest bill. Brazil therefore has little choice but to raise taxes and cut spending.

Mr Levy made a game attempt to renovate the building while putting out the fire. He trimmed discretionary spending by a record 70 billion reais (\$18 billion) in 2015 and tightened eligibility for unemployment insurance. But it was not enough. The recession dragged down tax revenues. Ms Rousseff gave her finance minister only lukewarm support and the PT was hostile towards him. The opposition, intent on ousting the president, was in no mood to co-operate.

Although he was a senior treasury official during Ms Rousseff's disastrous first term, Nelson Barbosa may be able to accomplish more as finance minister. He has political support within the PT. He also has bargaining power, because Ms Rousseff cannot afford to lose another finance minister. One early test will be whether Mr Barbosa persuades a recalcitrant Congress to reinstate an unpopular financial-transactions tax.

A central target should be pensions. The minimum benefit is the same as the minimum wage, which has risen by nearly 90% in real terms over the past decade. Women typically retire when they are 50 and men stop work at 55, nearly a decade earlier than the average in the OECD (a club of mostly rich countries). Brazil's government pays almost 12% of GDP to pensioners, a bigger share than older, richer Japan.

If Brazil is to fulfil its promise, much, much more is needed. A typical manufacturing firm spends 2,600 hours a year complying with the country's ungainly tax code; the Latin American average is 356. Labour laws modelled on those of Mussolini make it expensive for firms to fire even incompetent employees. Brazil has shielded its firms from international competition. That is one reason why, among 41 countries whose performance was measured by the OECD, its manufacturing productivity is the fourth-lowest.

To reform work and pensions, Ms Rousseff must face up to problems that have been decades in the making. Some 90% of public spending is protected from cuts, partly by the constitution which, in 1988, celebrated the end of military rule by enshrining generous job protection and state benefits. Because it is so hard to reform, Brazil's public sector rivals European welfare states for size but emerging ones for inefficiency. Long a drain on economic vitality, Brazil's overbearing state is now a chief cause of the fiscal crisis.

Overcoming such deep-rooted practices would be hard for any government. In Brazil it is made all the harder by a daft political system, which favours party fragmentation and vote-buying and attracts political mercenaries who have little commitment either to party or to programme. The threshold for a party to enter the lower house of Congress is low; today 28 are represented, adding to the legislative gridlock. Congressmen represent entire states, some as populous as neighbouring Latin American countries, which makes campaigning ruinously expensive—one reason why politicians skimmed off huge amounts of money from Petrobras.

It is therefore hard, despite Mr Barbosa's advantages, to feel optimistic about the prospects for deep reform. Voters hold politicians in contempt. The opposition is bent on impeaching Ms Rousseff, a misguided battle that could dominate the political agenda for months. The PT has no appetite for austerity. Achieving the three-fifths support in both houses of Congress needed for constitutional reforms will be a tall order.

Reckless Rousseff

And if Ms Rousseff fails to bring about change? Most of Brazil's borrowing is in local currency, which makes default unlikely. Instead, the country may end up inflating away its debts. Brazil's achievement has been to lift tens of millions of people out of rag-and-flip-flop poverty. Recession will halt that, or even begin to reverse it. The hope is that Brazil, which has achieved hard-won economic and democratic stability, does not lapse once again into chronic mismanagement and turmoil.