



**Episode 381 – Another Place the Keynesians Wrecked**

**Guest: Anthony Mueller**

**April 15, 2015**

**WOODS:** I want to talk to you about Brazil because it's been in the news quite a bit, but also because you wrote an article which we will link to on today's show notes page. This is episode 381. So the show notes page will be [tomwoods.com/381](http://tomwoods.com/381). I am going to link to this article you wrote on Mises.org about Brazil as a victim of what you call vulgar Keynesianism. Now, let me tell you: from the American point of view, Brazil has been a great success story. Hillary Clinton was bragging about Brazil as a place that proves you can have very high taxes and very robust growth. What is the reality of the situation?

**MUELLER:** Well, in fact Brazil experienced a boom for some time during the height of the commodities boom. Brazil is still an exporter mainly of commodities, and when the leftist government took over, it ended this lucky period that lasted for a couple of years when together with a high demand for these products from China, swamped the treasury with a lot of income, and this initiated the government to put into place a series of social programs for the so-called poor, which in-turn guaranteed its reelection, and along with that came some foreign policy success—very deceiving successes. Brazil was awarded to hold the football championship, world championship, and the Olympics. So up until let's say 2010, one could be deceived by seeing a success story when, in fact, it was all based on some luck—some foreign, external beneficial circumstances. But in reality, what has been needed—rebuilding of the infrastructure, a certain strengthening of the supply side, did not happen. It was real, pure Keynesianism in terms of a feast of demand and particularly consumption.

**WOODS:** What has been the role of the central bank in all of this?

**MUELLER:** Well, in Brazil, the central bank is not independent. It financed the programs, and in Brazil you have the peculiar circumstance that sometimes when the central bank tried, in fact, to maintain the price inflation rate low and to control somewhat the money supply, there are many state banks, banks that are controlled and in the hands of the government that continue with lending, and they are very much linked to certain kinds of infrastructure projects, especially, and in this area, you experience the growth of the money supply. So it is less the central bank. The central bank simply does not have the authority to curb the credit expansion,

which is done by the state government banks, which in turn do not need to fear bankruptcy as private banks do.

**WOODS:** I want to digress for a moment: can you tell us about what we're seeing on the news in terms of large-scale protests there? A lot of times when we see large-scale protests, they tend to be left-wing in origin, and yet there seem to be protests in Brazil that have more of a Misesian flavor to them.

**MUELLER:** Well, these protests began already last year. Then came the election. The woman [CHECK] president was elected again by a small margin, and suddenly, beginning with this year, a huge number of bad news just came upon the electorate. So you must imagine the following: Brazil is a country where there is not much public discussion going on about economics, about politics—where many people don't have much interest in these things. The television programs are full of shows and games and so on. The people are more interested in football and these things. So many of the population believe the government propaganda, and the government itself can do a lot of propaganda through various agency, which is not a party, which not officially party propaganda, but from these government agencies. So they, really, there was a kind of massive illusion going on that things are great, that we are getting ever better, and suddenly, with the beginning of the new year, there came a series of increases of so-called administered prices for electricity, for example, gasoline, and so on and talk about raising taxes. So this is part of, let's call it, a shift of mood in the sense of a deep deception that has been going on in broad parts of the population.

**WOODS:** Have you had any contact with this so-called Free Brazil Movement?

**MUELLER:** Well, I am closely linked with the Mises Institute of Brazil, and we are somewhat of a catalyst in libertarian and free-market ideas, and given that the regular school and university system is very statist, we are, so to speak, the place where the youngsters come to hear a different view of things. I sometimes say it's a little like some water in the desert. And for many young people, it is very refreshing just to hear about a different opinion. Some of the younger guys are really active in the movement, and they are very good in the modern media—Facebook and YouTube—to spread these ideas. It's very different from what most people hear in the official media and in school and at the universities.

**WOODS:** That was going to be my next question. What exactly is being taught in the universities? Let's just say economics. I assume the other social sciences are as bad there as they are in the U.S., but what do people learn in economics in the typical Brazilian university?

**MUELLER:** Well, historically, one has to know that from the '60s to '82, there was a military dictatorship, and during this dictatorship, so-called democratic movements grew, and that adopted a left-wing attitude. So when democracy came, it was almost automatic. To be democratic means to be left-wing and to hate anything that sounds like Right. And so these groups with the democratic movements when they came into power with various governments also had the opportunity to take over, so to speak, the university system, and being closed from

the rest of the world during this time of a dictatorship in terms of a free education—in terms of an open discussion—there was a very deep relationship with Marxist thought, Keynesian thought, Kaleckian [CHECK] thought, and so on so that the university system in general is dominated by let's say in economics—not only by Keynesianism, but what is called also in Europe and the U.S., left-wing Keynesianism. So it is a kind of Keynesianism that is very much linked to Robinson, Kaletsky and these quasi-Marxist thinkers. In addition to that, the study of Marx even in economics—the political economy of Marx is obligatory and very strong.

**WOODS:** What are the economic conditions in Brazil right now such that people are so unhappy? It seemed—things seemed to be doing well. Let me make this into two questions, come to think of it. It seemed as if for a number of years you had a lot of government spending. You had quite a bit of consumption, and the numbers, the raw numbers looked good to the outside world, and this was cheered as a great success. Presumably, some of that had to be real prosperity. Some of it had to be real growth, and then by contrast, what's happened now? So, in other words, is there anything good that's been happening, and right now, what are the conditions that we see?

**MUELLER:** Well, in this respect, Brazil is a peculiar country. It was once called Belindia; Belindia meaning it is a mixture of Belgium and India. So moving around in Brazil, you find many areas that have the same level of development as Belgium, and then you have these other areas where the situation is like in parts in India. Poverty is still widespread, but at the same time, there are many, many islands of amazing prosperity, of amazing modernity, and this division is a constant problem for Brazil. So this present government in one effort tried to bridge somewhat this difference, and the idea was to initiate a huge program of redistribution. It's called bolsa familia, where the so-called poor people get a kind of pension, monthly pension, and this, in turn, helped in this stage to integrate at least from the consumption side, these groups more into the general society.

The problem, of course, is that one cannot maintain these redistribution programs forever because at the same time, it also limited the interests and the incentive for these groups to seek work and to have a real integration into the economy. So now with these additional costs that the government could finance in the past when there was this commodity boom, now suddenly the finances of the country come under pressure, and there is need to cut spending. So, of course, in a situation like that, the government cannot cut these transfers. But instead, it uses the tax system to take the money. So it is a real, let's say, a program that showed its insanity in the sense that you give, or the government gave, huge transfers to the poor, and now they take back these transfers by raising the taxes. The taxes on food are already very high; the tax on electricity, as I mentioned, the tax on transport and so on. So, of course, these people who were beneficiaries in the past are also very frustrated with the government, and it is not only the so-called middle class.

**WOODS:** When you and I were speaking off the air, I was mentioning to you that I am going to be running this episode on April 15, tax day in the United States, a day when people will be

looking for some good news, and we're not going to be giving it to them. I wonder if you might, as somebody who has been around a while, as I have, who has been in the trenches fighting this fight, we do see some glimmers of hope here and there, and I wonder if you might be able to share some thoughts in terms of where you see Brazil going and what the prospects might be for Brazil, particularly compared to the rest of the continent. When we see that there are indeed some new ideas that are beginning to spread among young people, what are your thoughts about the long term?

**MUELLER:** Well, in fact, long term, I am pretty optimistic, particularly because the present situation is a kind of lecture to the broad masses, so to speak, and to youngsters and the students in particular. So it is kind of a wake-up call. The popularity of the present government is sinking like a stone. It's a kind of revelation for many people that these policies of the past of redistribution, of a kind of state capitalism does not work, and so the, let's say, libertarian or liberal ideas in the classical sense are gaining resonance, and they lead to movements, not only social movements on the street, but also concrete steps in the formation of parties. So they are—you have to imagine in the present congress, there is not a single party that could be called free market or even conservative; all have socialist, communist, or something like that in their names, and they act this way. So you have a simple picture of Left and Right. So the party spectrum goes from the extreme Left to the middle, and that's it. And so at the other side of the political spectrum, there is a huge open space, and once some new party can enter here, it will surely be a success story because people are waiting for an alternative. What has really been a revolution intellectually is, of course, the access to information, and in this sense, too, Brazil is a very modern country. So people just love the Internet and love to be informed by these new media and to shun the old state-controlled or close-to-the-state media, including the traditional education and university system.

**WOODS:** It sounds what's happening in Brazil is similar to what has been happening in the United States, where we have a very similar situation in terms of how limited our political spectrum is, and then suddenly, this brand new phenomenon which cannot be accounted for on that spectrum because that spectrum, as you say, runs from the middle to the Left, has suddenly emerged, and is making an impact, and is changing the conversation. I am thrilled to hear that it's happening in Brazil, because I hear from people from other countries who come on this show—people from even in England and in other places say that they don't see this. They don't see this phenomenon intellectually. But it clearly is taking root in Brazil, and it's no doubt due to the work of people like you and the Mises Institute of Brazil and some of the other liberal, in the classical sense, organizations that are present there. So I appreciate your update on what's going on and your analysis, I'll link to your important article at [tomwoods.com/381](http://tomwoods.com/381), and as events unfold, I hope we can talk to you again.

**MUELLER:** Okay, and thank you very much. It's been a great pleasure, and I like your program very much. It's a huge contribution to our cause. Thanks a lot.

**WOODS:** I appreciate that, and it's funny; As I look at the download figures for around the world, Brazil is definitely in the top 10 countries. I have about 140 countries where the show is downloaded, and Brazil is in the top 10. So I am glad you guys were getting the Tom Woods Show bump down there in Brazil.

**MUELLER:** (laughs)

**WOODS:** Anyway, thanks so much again.

**MUELLER:** Okay, good luck.