The Takeover of Social Policy by Financialization

The Brazilian Paradox

LENA LAVINAS

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In memoriam de Ondina e Morais, que me mostraram o rumo.
Para Joana e Manuela, que me mantêm no prumo.

In memory of Ondina and Morais, who showed me the way.
To Joana and Manuela, who keep me on track.

Foreword

The Takeover of Social Policy by Financialization explores three closely related issues, at distinct levels of analysis: first, neoliberalism and financialisation, both as defining features of contemporary capitalism and as drivers of social reproduction; second, financialisation in Brazil, focusing on the macroeconomic and financial policies implemented by the federal administrations led by the Workers' Party (PT, in power between 2003 and 2016); third, the unique, and uniquely significant, role of social policy in Brazilian financialisation. In doing this, *The Takeover of Social Policy by Financialization* offers a searing indictment of the 'social-' or 'neo-' developmentalist model associated with Presidents Luís Inácio Lula da Silva and Dilma Rousseff.

Neoliberalism is the current phase of global capitalism, and financialisation is the economic core of neoliberalism. In country after country, neoliberalism and financialisation have reorganised the processes of production, exchange, distribution and accumulation of value, and led to the emergence of distinctive modes of social reproduction including specific modes of governance, ideologies, and subjectivities. In this context, the financialisation of daily life has intensified the subjection of households to financial markets and processes almost everywhere.

These statements are generally correct but they lack historical content: even though neoliberalism and financialisation are analytically distinctive, they are not homogenising. Instead, they foster diversity and differentiation, with each country and region following an original route towards the new system of accumulation. While the USA, the UK, France, Germany, Italy, Japan and Canada offer interesting but relatively familiar case stud-

ies, the transitions in other countries are often not widely known. The case of Australia is particularly relevant in this context. In Australia, governments and trade unions led by the Labor Party agreed to a set of neoliberal reforms in the mid-1980s, which culminated in a dramatic restructuring of Australia's economy and society, the disintegration of those governments, and the demolition of the organised left. The Brazilian case is similar; but it is peculiar in the way left-leaning administrations, trade unions, finance and industry coalesced around a neoliberal programme of economic and social restructuring that was veiled by a 'new' national project: the social-developmentalist model launched by the PT.

Social-developmentalism was validated by the argument that it combined the strengths of neoliberal macroeconomics, which should deliver economic efficiency and market credibility, with the advantages of progressive social and incomes policies that would promote social justice and boost the domestic market. This model of development provided, then, a 'covenant for growth with social inclusion': it would bring about a virtuous circle of economic growth and social equality, eventually turning Brazil into a happy, modern and prosperous Western social-democratic country. Lena Lavinas demonstrates that this was a terribly costly mirage. In particular, that 'covenant' was based upon a financialised and unsustainable pattern of mass consumption sustained by government transfers, subsidies, and permanently rising personal debt.

The Brazilian road to financialisation included two mutually reinforcing tracks. On the one hand, financialisation was parasitical upon, and helped to destroy, the previous system of accumulation based on import-substituting industrialisation. The process of financialisation intensified in the late 1980s, as Brazil embarked on a wholesale transition to neoliberalism. This process was heavily supported by government policy, especially during the administrations led by Presidents Fernando Collor (impeached for corruption in 1992) and Fernando Henrique Cardoso (1995–2002). This is uncontroversial. What is groundbreaking is Lavinas's detailed exposition of the growth of financialisation during the administrations led by the overtly left-wing PT. In this sense, Lavinas's argument is *not* that the PT 'failed' to reform Brazil's economic and social structures, or that it did not do 'enough' to build a cohesive society.

It is far worse: Lavinas shows that the PT's policies were neither simply misguided nor merely unfortunate. They were *perverse*, since they helped to entrench neoliberalism and accelerate the financialisation of the Brazilian economy and society. This happened through several channels;

key among them was the explosive growth of consumer credit and the (closely related) expansion of transfers, which were at the core of the PT's flagship social policies. Those transfers were meant not only to alleviate extreme poverty, but also to provide collateral for personal loans, credit cards, insurance and the sale of other financial services and assets to virgin markets populated by tens of millions of workers that were misleadingly called 'the new middle class'. The capture of those social groups into financial structures and processes during the PT administrations was intensified by 'consigned' bank loans, paid through deductions coming directly from the wage packets, pensions and benefit payments. This type of loan was promoted by an unholy alliance including the federal government, PT-led trade unions, industry, private health and education providers and, of course, banks and insurance companies. Consigned loans drastically reduced bank costs; credit became cheaper, safer and widely available, and borrowing was normalised formillions of people. The financialisation of daily life proceeded apace under the PT.

Lavinas shows in precise detail how and why this model of growth was flawed. For example, while the global winds were favourable, the Brazilian road to financialisation was funded by the country's booming primary exports. However, the government's neoliberal macroeconomic policies also fuelled perverse international flows of capital, the overvaluation of the currency and a process of premature deindustrialisation that drastically reduced the scope for generating incomes to support jobs, transfers, the repayment of loans and the wider distribution of income. This was worse than ignorance, and more perverse than neglect: Lavinas shows that the PT governments maintained course despite the glaring insufficiencies of social developmentalism, the alarm expressed even by the party's supporters and the economy's rapid loss of dynamism since2011. As the world became bogged down in the longest crisis since the Great Depression, the model of growth associated with the PT increasingly had to rely on public sector subsidies, tax rebates and transfers, which eroded the fiscal balance, and on personal loans, that turbo-charged the financialisation of daily life. This way, the government drilled into its own foundations. The Brazilian economy entered the longest and deepest depression in its recorded history; the opposition turned feral, and the Rousseff administration was impeached on trumped-up charges. The PT suffered an unprecedented—but not wholly unpredictable—cataclysm.

There is nothing to suggest that the putschist administration will address the previous policy shortcomings constructively, rebalance the economy,

distribute income more efficiently or reverse financialisation. Quite the contrary. The Brazilian paradox identified by Lena Lavinas remains firmly in place, now with new layers of complexity and even greater iniquities. This book is essential to appreciate them, and to find out how Brazil came into its current predicament. Those painful realities cannot be challenged without appropriate understanding. This book is, then, not only brilliant; it is also essential reading for our bleak times.

Alfredo Saad-Filho
London, September 2016

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CHAPTER 1

Introduction

Twenty-First Century Developmentalism

In just a few years, this twenty-first century has taken Brazil from the euphoria of finally having attained a long-awaited lot—the status of a nation both prosperous and generous with its own—to the harsh understanding that we have yet to reach that which we deserve. Brazilians' deeply rooted nationalism has once again been put to the test.

In a land of superlatives, where hyperbole cuts across class and the political spectrum, the scale of this frustration rivals the drop in socioeconomic indicators. The bitterness is deepened by the fact that Brazilians had lately grown accustomed to savoring the satisfaction of being recognized as quasi-exceptional for having created a development model of their own. Against the grain of the developed world, it was advancing by leaps and bounds at the turn of the twenty-first century: it reduced inequalities; invented a poverty-fighting program broadly praised across the ideological spectrum, which became a robust export template in and of itself; significantly boosted the minimum wage; brought about a hefty increase in average income; increasingly pushed the working class toward formalization and expanded their rights; and broadened opportunities, establishing quotas to ease access to higher education for those who had never been so fortunate as to attend a good private school—who happened to be the great majority.

All of this came about in the absence of reforms aimed at reducing the sharply regressive bent of the heavy Brazilian tax burden, and without

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breaking away from a macroeconomic regime that was, at its core, largely a neoliberal one. That regime preserved the "tripod" inherited from the 1990s, that is, a floating exchange rate with monetary and fiscal policies guided, respectively, by inflation targets (an explicit, institutionalized commitment on the part of the Central Bank) and a primary budget surplus. Similarly, at no point did it become a critical priority to revert the steady decline of the manufacturing industry as a share of GDP, which has only accelerated since 2004. A precocious deindustrialization process advanced apace, despite the importance placed on growth by way of the significant expansion of the domestic market. On the external front, there were worrisome signs that Brazil was strengthening its position as an exporter of raw materials, given growing dependence on non-industrial and low-tech goods.

This blend of contradictory signals suggested that the new wave of developmentalism, buoyed by a vigorous return to economic growth, harbored weaknesses. While lack of demand seemed to have been overcome, the structures sustaining a continued reproduction of inequalities remained in place. Things were going smoothly, as predicted: in theory, this was a game in which nearly everyone would win. There would be redistribution without redistributive conflict. In the words of Ricardo Bielschowsky, a key architect of the conceptual design of this seemingly promising strategy, "in this new cycle of development the vast majority of the population will tend to be winners, which opens up the possibility of attaining reasonable social cohesion."[1]

The missing link on the way to social cohesion, so it went, would emerge with the advent of mass consumption. In Brazil, as in the rest of Latin America, the core impediment to the expansion of a mass consumption society resided (above all else) in the absence of mechanisms for boosting consumption in the context of low productivity and the persistent oversupply of labor.[2] As Celso Furtado put it, what had yet to materialize was "the dynamic action [that] operates on the supply side *as well as around demand for final consumer goods.*"[3] The successful industrialization strategy conducted by the State[4] during the years of the "economic miracle"[5] had not managed to move beyond the constraints of a highly concentrated pattern of consumption circumscribed to the elites and upper middle classes. The result was markedly discontinuous demand,[6] since most of the population's needs were met on the margins of the market. The diversification of consumption patterns did not affect the masses, which remained excluded from the "miracle," checking the expansion of

the domestic market. This, moreover, blocked the emergence of a virtuous cycle of growth in which consumer demand, at the head of a new regime of accumulation, would bring investment along, introducing innovations that would in turn boost productivity, with positive repercussions in terms of rising wages—which, ultimately, would feed back into demand. This was the spiral leading the way out of underdevelopment; it would revolutionize the social structures responsible for its reproduction.

The new millennium presented an opportunity to carry out a strategy conceived as the most effective approach to the obstacles delaying the emergence of a major market consumption society. In theory, its trickle-down effects could keep the economy functioning permanently at its growth potential.

This strategy, dubbed "social-developmentalism"[7] or "redistributive developmentalism guided by the state,"[8] adopted as a "test,"[9] would come to fruition under the Workers' Party (Partido dos Trabalhadores, or PT), when Luiz Inácio Lula da Silva was first elected president in 2003. This new cycle of long-term growth would be built on three demand-driven fronts of expansion: mass consumption, natural resources, and infrastructure.[10]

The Place of Social Policy Within the Social-Developmentalist Strategy

Flying in the face of founding structuralist thought, which saw the persistence of productive and social heterogeneity as a barrier to overcoming underdevelopment, within a few years Brazil shifted to a mass consumption society. At the same time, however, it skipped over the metamorphosis that might have transformed it into a developed nation with greater homogeneity and increased productivity.

The result: while the differences between rich and poor shrank dramatically when it came to owning cell phones, domestic appliances and other everyday consumer goods, and the wage gap even diminished to an extent, removing around 35 million people from extreme poverty, health and sanitation indices revealed the persistence of profound inequities. Social spending grew, but failed to tackle the deepening of other troubling dimensions of a Brazil supposedly on the road to redemption. With little visibility and utterly absent from the developmentalist debate, the violation of Indigenous human rights remains the rule; their demarcated territories have been systematically invaded by agribusiness, feeding a devastating death toll among Indigenous communities. The government, visibly

indifferent to the practices that drive this extermination of the Indigenous, continues to implement an "Indigenous policy that is notoriously anti-Indigenous."[11] As for gender disparities, a murder rate of 4.8 women per 100,000 inhabitants in 2013 places Brazil in fifth place on the world ranking of femicide.[12] To address this appalling state of affairs, Brazil passed a law specifically addressing femicide in 2015[13]; but its impact in terms of reducing the numbers of women who meet such violent deaths has yet to be seen. Of the nearly 60,000 homicides registered in 2014, more than half of the victims were youths (ages 15–29) and 77 percent were Black.[14] This corresponds to a rate of 29.1 homicide per 100,000 inhabitants, or a record of 160 homicides per day in 2014.[15] From 2004 to 2014, the homicide rate in Brazil increased by 21 percent, in spite of the disarmament statute adopted in 2003.[16] Without it, there would have been at least 77,889 homicides in Brazil, or 41 percent more in relation to previous observations, according to a study released in March 2015 by Institute for Applied Economic Research (IPEA).[17] This same report states that Brazil produces 10 percent of all homicides worldwide and ranks first in terms of the absolute number. While homicides of Whites fell nearly 15 percent from 2004 to 2014, the rate for Blacks rose 18.2 percent. This is to say that existential inequalities[18] continue to run deep in Brazil and, on all the fronts mentioned above, they have deteriorated since 2004.

Contrasts, paradoxes, and perplexity are all present in the narratives that attempt to explain Brazil. In terms of social policy, things have been no different: in recent years, poverty-fighting programs have drawn global publicity that overestimates their real efficacy, just as the edifice of social protection, the greatest legacy of the country's process of redemocratization, saw its foundations eroded by macroeconomic policy and the overpowering advance of financial markets. While financial deregulation had begun earlier, in the late 1980s, the peak of financialization would emerge alongside a political project that cast itself as reformist, progressive, and with a wide, popular political base.

My aim in this book is to apprehend the crucial biases in the development strategy adopted in Brazil as of late by uncovering the limitations of a conceptual framework that occludes the ongoing logics and dynamics of financialization and its pervasive links to social policy. It has been argued that a mass consumption society would overcome Brazil's social and economic underdevelopment by fomenting a new path of inward-looking industrialization boosted by the expansion of the domestic market. In reality, the recent expansion of mass consumption in Brazil was expressly

marked by an overvalued currency, which allowed for growing imports. This trend failed to fuel productivity gains and precluded recent real increases in average earnings from having an actual mobilizing force in the consolidation of the highest ambitions of the social-developmentalist model.

In this book, I examine the complementarity between social and economic policy in what was called a "covenant for growth with social inclusion",[19] which I feel would be more appropriately described as a "covenant for growth with mass consumption." In what follows I question the now-vanished virtuous cycle of growth, in linking pro-labor strategies to a wage-led economic regime, might finally have led Brazil into the post-war Golden Age, consolidating the welfare state. I argue that, conversely, social policy has played a crucial role in advancing financialization and reducing the scope of rights and entitlements. Social policy was key to the transition toward a domestic consumption-led growth regime[20] in Brazil. It did not, however, provide public goods and services which would in turn ward off a wide range of social risks and enhance competitiveness, fostering a more homogeneous society (as happened under the Keynesian welfare national state[21]). Rather, here social policy served as collateral to access financial markets through credit, facilitating an intense process of financial inclusion. As such, it has supported debt-financed spending at the expense of the provision of public goods and services.

What we have seen is social policy being taken as a mechanism in order to secure credit, and consumer credit in particular. In so doing, "it puts the counterparty ahead of other creditors in the queue to recover what is owed, in the event one's counterparty defaults on its obligations";[22] and as a result, it allows the collateral receiver (financial institutions) to trade collateralized loans on the financial market, amplifying securitization and deepening household dependence on new and permanent loans.

This understanding of how social policies have been captured by finance diverges from those who insist that the Rooseveltian dream[23] was poised to be ushered in by social-developmentalism, a model cast as superior in terms of social justice[24] not only in comparison with the neoliberal creed, *et pour cause*, but also when held against other structuralist approaches. The break in this trajectory, given the ongoing crisis, threatens to bring about the definitive collapse of Lulism[25]—a drastic step back, and one whose effects on social rights have yet to be gauged.

Lulism is a term coined by André Singer[26] to express how President Luiz Inácio Lula da Silva came to forge a power system based on an alliance

with a lower stratum of society, the subproletariat or the working underclass, employed in informal or precarious jobs. Rather than seeking to address persistent structural flaws, Lulism opted for social soft reformism and ultimately stood as a process of social pacification[27] amidst an attempt to implement a new development model, social-developmentalism.

According to the social-developmentalist lens, the way out of the current crisis would be a return to expansionist policy in order to revive the depressed economy and put an end to the monetary squeeze ongoing since 2015. Institutions such as Social Security and other rules and regulating mechanisms that determine individual and collective behaviors would serve as the guarantors that this course change would put the economy back on track, thus lending a degree of protagonism to public investment.

Herein lies the Achilles' heel of the model. Under the Workers' Party, which had risen to office with massive support from the lower and middle classes, there came globally recognized advances in the fight on poverty, confirming the World Bank's theses that anti-poverty means-test programs that employed conditional cash transfers would finally be able to break away from the corporatist structures of social protection, which were seen as reproducing privileges. In economies with a large share of informal workers, Bismarckian systems, with their low contributive density and thus scant welfare coverage, were seen to simply extend the advantages available to the small fraction of the population with the ability to contribute until after the end of their working lives. As highlighted by Rubén Lo Vuolo, "the universalistic aim of social policy was confronted with the argument that it did not work in the best interest of the poor."[28] Targeted, residual programs aimed at attenuating the income deficits of the poorest were prioritized over universal welfare systems. Welfare coverage, in turn, was left open to the greed of the private funds managing individual fully funded schemes, a system prevalent since the mid-1970s. At that time, Latin America was witness to the first experiments in the complete or partial privatization of contributory systems[29] which had produced such evident and disastrous results by the 1990s[30] that it became necessary to reintroduce public systems and consider counterreforms that might ensure basic pension plans and other social protection floors.[31]

Brazil seemed to have stood firm against the neoliberal tidal wave, preserving the bases of its social security system as enshrined in the 1988 Constitution. The Constitution guaranteed the right to a public and universal healthcare system, inspired on paper at least by the British National Health Service; support for the least fortunate and most excluded,

via the control of means toward the provision of a non-contributory safety net; and a public social insurance scheme, where the increased flexibility of contributory rules for certain groups not earning regular wages, such as small farmers, had a Beveridgean and egalitarian bent, breaking with a highly stratified model that provided generous pension plans to a very few. However, distortions began manifesting themselves in a welfare system which revealed itself to be weakened and clumsy when it came to implementation.

Social policy in Brazil is designed primarily to solve market failures, as opposed to underwriting structural transformations of profound asymmetries, whether in the social or in the productive sphere.[32] It is no coincidence that two-thirds of social spending in Brazil has taken the form of monetary transfers, to the detriment of decommodified forms of direct provision. In terms of federal social spending, that figure can reach as high as 80 percent.[33] This spending structure tends to reduce the impact of social policy in equalizing opportunities, leaning toward "incorporation into the market."

Featuring Financialization

As is often stressed, financialization is not defined by any one concept.[34] Rather, it comprises an array of empirical features and processes that paint a portrait of a new accumulation regime in which macroeconomics and economic policies are increasingly dominated by the rationale of financial capital,[35] with particularly detrimental effects on labor, productive investments, and the economy in general, as well as daily life.[36] Financial markets, financial actors and financial institutions[37] are seen to gain influence over the real economy. Yet, as highlighted by Ben Fine, financialization is not only a matter of the greater weight of finance, but also "its greater scope of application,"[38] thus extending "its influence beyond the marketplace and into other realms of social life."[39] Those directly affected are not only firms, but also ordinary households.[40]

Read cumulatively, financialization should be understood as a new dynamic of capitalist relations in which "the dominance of financial markets and transactions overshadow production and trade."[41] For Maurizio Lazzarato, it is "indicative of the increasing force of the creditor-debtor relationship" in contemporary capitalism.[42] Or, in the influential framing proposed by Gretta Krippner, financialization is "the tendency for profit making in the economy to occur increasingly through financial channels

rather than through productive activities."[43] The author also recognizes other definitions, such as those casting financialization as "the ascendancy of shareholder value as a mode of corporate governance," "the increasing political and economic power of a *rentier* class," or as the "explosion of financial trading associated with the proliferation of new financial instruments."[44] This understanding echoes Giovanni Arrighi, for whom the development of capitalism unfolds in two phases: first, material expansion, then financial expansion—at which point profit-making shifts from trade and commodity production to financial channels.[45]

In turn, Leda Paulani stresses that not only has the financial valorization of capital expanded rapidly, but it has also gained increasing autonomy from the valorization of capital through the process of production. In addition, the logic of finance has become internalized within production itself, coming to drive it. In finance-dominated capitalism, one sees "an increasingly pronounced transfer from production to property",[46] which generates rights and thus gives way to new, swelling flows of rentier incomes.

Among the many characteristics[47] that define the core of the ongoing financialization processes, specialized literature underscores the decline of the wage share, followed by growing income inequality.[48] As a result, debt-to-income ratios have tended to rise sharply to compensate for stagnant or falling earnings. Likewise, the composition of the capital share has also shifted toward multiple forms of rewards to finance, rather than toward profits.

All of these features speak to the dynamic of financialization as seen in advanced economies, which are the almost exclusive focus of studies on the topic.[49] The phenomenon was initially recognized as having "infected all industrialized economies."[50] One might probe, however, whether this structural transformation of contemporary capitalism—since that is what is being seen—might also have contaminated the Global South,[51] with Brazil failing to escape the trend.[52] This being the case, attention should turn to identifying the mechanisms that feed this dynamic, as well as the characteristics that set them apart.

How Financialization Strikes a Blow to Social Policy in Brazil

After more than 13 years of Workers' Party rule, the net balance of its administrations indicates setbacks in terms of the preservation and consolidation of Social Security[53] such as it was instituted, as well as a profound

and radical transformation of the logic, ends, and making of social policy. The metamorphosis brought on with this "new model" is most glaringly visible in the unchecked advance of the commodification of health services, care and education in particular, via private provision which grew out of the vacuum left over by public provision; in the accelerated growth of private fully funded systems, stimulated by income tax breaks and threats to the institutionalization of public pensions; in the chronic and recurring underfinancing of social policy as considerable sums are sucked away from the Social Security budget and put to ends other than social protection; in the almost exclusive centrality of the fight against poverty, to the detriment of the promotion of a more homogenous and cohesive society; in the concession of special credit lines to finance private goods and services that compete with public provision; in the colossal, unconditioned tax exemptions conceded to companies to foster competitiveness; in the privatization of public employment, degrading it in the name of balanced budgets; and now, too, in the collateralization of the social policy that provided ballast for the runaway expansion of the financial system to every end, across all levels of society, excluding risks of moral hazard to creditors, and making the process by which families sink into debt one of the driving forces behind the "democratization" of modern finance. The goal is crystal clear. In the words of Robert Shiller, "finance must be for all of us."[54] This is the focus that has come to guide the reshaping of social policies in the age of finance, as expressed in the World Bank's premise that "access to finance helps to equalize opportunities and reduce inequalities."[55]

The transformations mentioned above are all manifestations of the uncoupling of social policy from its previous modus operandi, now rewarded by institutional arrangements based on the prerogatives of the financialization process. In the various models of social protection that took root in postwar Western economies, social policy had a virtuous relationship with economic policy. Through the full or partial decommodification of a wide array of public services (housing, healthcare, education, professional training) and the guarantee of monetary income, it contributed to preventing risks and stabilizing the economic cycle against uncertainties. The vigorous growth of social spending reflected positive complementarities between the reproductive sphere and the Fordist accumulation regime. It joined innovation and productivity gains to effective redistribution, particularly so through the institution of a progressive tax system, aimed at equalizing opportunities and homogenizing the

workforce. During phases of expansion, it strengthened the market economy, boosting consumption and demand and incentivizing the creation of a large number of direct jobs. When economic activity contracted, it acted countercyclically to bring growth back to its potential through the deliberate expansion of public spending and the so-called automatic cycle stabilizers (fall in revenue and an increase in transfers).

In the era of financialization, the game has changed. With wealth stemming increasingly from financial rents, the centrality of the search for productivity weakens. This explains, for example, the tendency toward an aggressive retraction in investment as a component of aggregate demand seen in many economies. If productivity was the backbone of the Fordist model of growth, thus linking itself to a certain vein of social policy, now it is consumption—more specifically, the financing of consumption—that plays a more significant role in spinning the wheel of accumulation in the financial sphere. Under the previous regime, the appropriation of surplus arose largely from the added value generated in the productive sphere. This remains the case, and is inherent to the logic of capitalism. Productivity mattered, and social policy incorporated the mechanisms necessary for a steady rise in productivity. This allowed for a certain degree of primary distribution of capital to the benefit of labor. Today, under the aegis of financialization, capital takes the form of the ownership of securities, shares, and rights to credit payroll—financial assets, in other words, which generate a variety of sorts of income. The rampant spread of indebtedness and the swift rise in the debt-income ratio for families across social classes, but particularly the middle and working classes and lower sectors of society,[56] indicate this gradual transition between accumulation regimes. This is a global phenomenon, and it has not spared emerging economies like Brazil.

With financialization, private long-term financial arrangements come to replace previous institutional arrangements grounded on intergenerational solidarity and social cohesion, cornerstones of welfare capitalist regimes.

Now, social policy is, under capitalism, a key tool in the promotion and consolidation of any regime of accumulation. Colin Crouch recalls that "marketization requires social policy, not only to combat the negative effects of markets, but also to support the market with things it cannot provide for itself."[57] The problem is that "marketization and social policies are usually seen as opposed projects," rather than complementary ones. Within the ongoing process of financialization, this singular and complex relationship between markets and social policy is being reconfigured. Their complementarity, in other words, is being redefined.

Meanwhile, as Ben Fine puts it, "the relationship between financialisation and social policy is neither uniform nor always or even primarily direct."[58] But with the understanding that social policy remains inherently country-specific, our aim is to decipher how the process of the financialization of Brazilian society will reconfigure social policy and redefine its relationship with economic policy and the prevailing institutional landscape, examining direct and indirect consequences on the well-being of the public, in terms of the expansion or dismantling of the social protection system, and in facing down the staggering inequalities that remain the calling card of a country still in search of its future as a nation of all and for all.

The Structure of the Book

In this book, I seek to answer the following questions:

(a) What kind of alignment between economic and social policy prevailed within this new model of development adopted in Brazil; and why were its efforts to promote a more egalitarian society limited and short-sighted?
(b) Why has the emergence of a mass consumer society in Brazil proved insufficient to lift the country out of underdevelopment, or even to consolidate permanent mechanisms for redistribution? How to overcome this Brazilian paradox?
(c) In what form does the currently hegemonic finance-dominated capitalism retool the role of social policy, away from rights-based decommodified benefits and toward further commodification?

Going against the thinking defended by many Brazilian developmentalist thinkers and a considerable part of the Latin American structuralist school of thought, the solution for market failures prioritized in this model of social inclusion undercuts the efficacy of social policy, dissociating an essential dimension from this dynamic—to wit, the decommodification of a set of services that help equalize opportunities. In demonstrating this thesis, I make use of empirical analyses drawn from databases to evidence recent changes in Brazil; at the same time, I juxtapose differing theoretical frameworks, most notably the now-scorned theoretical viewpoint that casts the logic of decommodification as intrinsic to the development of market societies (Karl Polanyi's double movement[59])—and that

contributed to the development of fairer and more egalitarian societies in Western countries—as opposed to the model of the financialization of social protection, which is currently gaining strength to the detriment of public welfare systems, whatever their scope.

After this introduction, Chap. 2 systematizes data on the recent evolution of the Brazilian economy so as to characterize the performance of the social-developmentalist model from the turn of the century through 2015—the point at which its trajectory was interrupted by a variety of crises, toppling a growth strategy that was proving almost subversive. I highlight the crucial role reserved for consumer credit in this strategy, and which was evidently neglected within social-developmentalist thought, within which the demand-driven model was essentially a product of a process of primary distribution fueled by the rise in earnings and the minimum wage in particular. This observation leads me to contextualize the ongoing financialization process, how it reshapes market societies and social protection schemes, and how it hampers redistribution through the privatization of public provision and growing debt.

In Chap. 3, I lay out how financial inclusion served as a powerful strategy to boost the potential of consumption of the "new middle classes," nurturing the transition toward a mass consumption society in Brazil. The move to mass consumption, in the absence of an underlying structural shift (since social heterogeneity was not overcome) facilitated the incorporation into the modern consumer market of those once on the margins. I then describe the prominent role played by consumer credit in collateralizing social schemes under the rule of the Workers' Party.

In Chap. 4, I examine the process of the subjection of social policy to the logic of financialization as led by the social-developmentalist State, providing an empirical characterization of how financialization impacts social policy. I warn of its repercussions—the most disturbing of which being the threat it poses to the social protection system passed down by the 1988 Constitution. I compare the various dynamics of the financialization process as I examine key sectors of social policy such as healthcare, pensions, and higher education. Finally, I analyze how the collateralization of social policy is directly linked to the expansion of the securities market in emerging economies like Brazil's, and how this drives its recommodification. In parallel, I call attention to how tax policy and tax regulations also served the logic of financialization, galvanizing asymmetries and reinforcing the concentration of wealth.

In Chap. 5, I reflect on the trajectory of social-developmentalism vis-à-vis the transformations of welfare state models in the developing world in particular in the age of financialization. I strike up a dialogue with contemporary authors such as Ben Fine and Susanne Soederberg, who propose alternative analytical frameworks to grapple with the mutations that finance-dominated capitalism has imposed on social protection systems. The ultimate aim of this chapter is to debate the challenges currently facing the Brazilian social security system—backed up against a wall by the advance of financial markets, now providing countless services that had once been intrinsic to the state's provision—and consider how to tackle them.

I bring out an overall assessment of the way the Brazilian paradox constitutes a challenge that must be adequately addressed by a new model of development, with fresh emphasis on the role of social policy, and give a sense of what may lie ahead in the near future, given the political context, in the aftermath of President Dilma Rousseff's impeachment.

Notes

1. Bielschowsky, "Estratégia de desenvolvimento," 737.
2. Pinto, "Naturaleza e implicaciones de la 'heterogeneidad estructural' de la América Latina."
3. Furtado, "Elementos de uma Teoria do Subdesenvolvimento," 118 (emphasis added).
4. Bertola and Ocampo, *The Economic Development of Latin America Since Independence*.
5. From 1968 to 1973, under military rule, Brazil experienced a period of impressive economic growth, with an average GDP increase of 11.1 percent p.a. and inflation rates in decline (from 25.5 to 15.6 percent in that same period). This was a consequence mainly of structural reforms associated with the Programa de Ação Econômica do Governo (PAEG) implemented during General Castello Branco's presidential term (1964–1967). The role of state enterprises was then crucial. One of the distinguishing features of PAEG was massive public investments in sectors considered key to address the country's industrial backwardness, such as steel metallurgy; energy and electricity; and oil and petrochemicals. The focus was on the production of capital goods and

intermediary goods to boost a process of inward-looking industrialization, through import substitution. The dark side of the "economic miracle" rests on a deep surge of income and wealth inequality.

6. Furtado, "Elementos de uma Teoria do Subdesenvolvimento."
7. Bielschowsky, "Estratégia de desenvolvimento"; Carneiro, "Velhos e Novos Desenvolvimentismos"; Biancharelli, "Economia, Sociedade, Desenvolvimento."
8. Bastos, "A Economia Política do Novo-Desenvolvimentismo e do Social Desenvolvimentismo."
9. Biancharelli, "Economia, Sociedade, Desenvolvimento."
10. Bielschowsky, "Estratégia de desenvolvimento."
11. APIB, "Manifesto Contra a Política Anti-Indígena do Governo Dilma."
12. Waiselfisz, *Mapa da Violência*.
13. Lei no. 13.104/2015 alters Article 121 of Decreto-Lei no. 2.848, from December 7, 1940 (the Penal Code) to cast femicide as a qualifying circumstance in the crime of homicide, and Article 1 of Lei no. 8.072, from July 25, 1990, to include femicide in the category of heinous crimes.
14. Anistia Internacional, *O Estado dos Direitos Humanos no Mundo*.
15. Cerqueira et alii, *Atlas da Violência 2016*.
16. Lei 10.826/03.
17. Cerqueira et alii, *Atlas da Violência 2016*, note 17.
18. Therborn, *The Killing Fields of Inequality*.
19. Bielschowsky, "Uma avaliação social-desenvolvimentista."
20. Boyer, "Crecimiento, empleo y equidad: el nuevo papel del Estado."
21. Jessop, *The Changing Governance of Welfare*.
22. Riles, *Collateral Knowledge,* 39.
23. Singer, *Os Sentidos do Lulismo*.
24. Amado and Mollo, "The 'developmentalism' debate in Brazil."
25. Singer, "O lulismo nas cordas."
26. Singer, "Raízes sociais e ideológicas do lulismo."
27. Braga, "Terra em Transe."
28. Lo Vuolo, "The Limits of Redistributive Policies in Latin America," 37.
29. Mesa-Lago, *As Reformas da Previdência Social na América Latina*; "Assessing the World Bank report *Keeping the Promise*."

30. Gill et al. *Keeping the promise of old age income security in Latin America.*
31. ILO, *Social Protection Floor for a Fair and Inclusive Globalization.*
32. Lavinas, "21st Century Welfare"; "'Modelo Social' em Crise"; "Brasil 2000: Mais consumo, pouca redistribuição."
33. Lavinas, Gentil, and Cobo, "The controversial Brazilian welfare regime."
34. Stockhammer, "Some Stylized Facts on the Finance-Dominated Accumulation Regime"; Van der Zwan, "Making Sense of Financialization"; Thomson and Dutta, "Financialisation, a primer."
35. Palley, *Financialization.*
36. Martin, *The Financialization of Daily Life.*
37. Epstein, *Financialization and the World Economy.*
38. Fine, "Financialization and Social Policy," 5.
39. Van der Zwan, "Making Sense of Financialization," 101.
40. Martin, *The Financialization of Daily Life.*
41. Soederberg, "The Politics of Debt and Development," 539.
42. Lazzarato, *The Making of the Indebted Man*, 23.
43. Krippner, *Capitalizing on Crisis*, 4.
44. Ibid., 27 and 28.
45. Arrighi, *The Long Twentieth Century.*
46. Paulani, "Acumulação e Rentismo," 29.
47. Fine, "Towards a Material Culture of Financialization"; Palley, *Financialization*; Thomson and Dutta, "Financialisation, a primer."
48. Lavoie, "Crise Financeira, Distribuição de Renda e Reflação pelos Salários"; Palley, *Financialization*; Stockhammer, "Some Stylized Facts on the Finance-Dominated Accumulation Regime."
49. In his edited volume *Financialization and the World Economy*, Epstein brings together a number of articles on how financialization has worked itself out in some 'emerging markets.'
50. Palley, *Financialization*, 17.
51. In this vein, see Jayati Ghosh's article on India in the edited volume by Gallas, Herr, Hoffer and Scherrer, *Combating Inequality in the Global South*, or Filipe González on the Chilean case.
52. Lavinas, "New Trends in Inequality."
53. Fagnani, "Previdência Social e Constituição Federal"; Lavinas, "Notas sobre os desafios da redistribuição no Brasil."
54. Shiller, *The New Financial Order,* 2.

55. Demirgüç-Kunt, Beck, and Honohan, *Finance for All?*, 2.
56. In the recent, strongly polarized debate over the emergence of a "new" middle class in Brazil, lifted by economic growth and its ranks swelled thanks to the rising social mobility of lower-class sectors, which doubtless came to represent a larger share of national income, Celia Kertznestsky and Christiane Uchôa stand as dissenting voices. They contest the former interpretation, considering the considerable credit crunch, especially in terms of overdraft banking and credit cards, as empirical evidence that these emergent groups cannot be considered a middle class in the classic definition of the term. Although I agree with the understanding that Brazil has hardly become a middle-class society by any standard—wishful thinking on the part of those who have governed the country at the turn of this century—I would like to call attention to the fact that new forms of access to the financial system do exist which have been taken advantage of by the so-called lower middle class, the working class, and even the poor. If it is true that the credit market tends to serve as an illustration of incomplete markets, demonstrating their consequences in terms of discriminating against the less fortunate and restricting their opportunities, the collateralization of social policy has come to patch that gap this time around.
57. Crouch, "Why We Need More Social Europe."
58. Fine, *Financialization and Social Policy,* 5.
59. Polanyi, *The Great Transformation*.

CHAPTER 2

Social Developmentalism as a Growth Model in Times of Financialization

Brazil 2015: Change of Trajectory

After a decade of a return to economic growth, with a fall in income inequality, slumping poverty indexes, a rise in average income, a broadened domestic consumer market and a reduction in external vulnerability,[1] Brazil has entered the second half of this decade beset by crises of all sorts and runs the risk of backsliding on several fronts.

In the economy, the signs are undisputed and disconcerting. In 2015, inflation broke the two-digit mark again (at 10.67 percent[2]), something which had not happened since 2002. The unemployment rate, having fallen sharply from 2003 to 2014 (from 13 percent to 4.7 percent[3]) broke out of its fall and soared in a few months to over 9 percent.[4] Over 1.5 million formal jobs were wiped out over the course of 2015 alone.[5] GDP saw a fall of the order of 3.8 percent over the year,[6] exacerbating a clear decline begun in 2011, when growth rates began to recede, registering the most modest performance of this new cycle, with a 2.1 percent annual average for the period 2011–2014. This was the largest drop in GDP since 1990.

Labor income did not escape the trend, and saw an end to the swell that had led to a real increase of 43 percent in salaries from 2003 to 2014.[7] By the end of 2015, real earnings dropped 1.2 percent in relation to the same period the previous year.[8]

As a consequence of the sharp downturn in economic activity, tax revenue has also plunged (with a real reduction of 5.62 percent in relation to

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L. Lavinas, *The Takeover of Social Policy by Financialization*,
DOI 10.1057/978-1-137-49107-7_2

2014, according to the Receita Federal), leading to a primary deficit for the government in 2014 and again in 2015, after three successive years of surpluses.[9] This means that during the boom period, despite its continuing expansion, primary spending[10]—including social spending—remained consistently below primary revenues, a key characteristic of the "hybrid politics"[11] that guided the macroeconomic policies of the Workers' Party in power.

Economic backsliding on this scale is a reflection of the turnabout in external conditions, which, having boosted previous growth during the commodity boom, steadily worsened through the international economic crisis which has made itself felt since 2008. It also evinces the conservative reaction from Dilma Rousseff's second administration (2015 to mid-2016) when faced with the signs that the model in place was wearing out: the government came to embrace a neoliberal set of prescriptions, accepting the need for a severe fiscal adjustment and an equally austere monetary policy in order to put the country back on the path to growth. The debate over a possible pension reform was immediately put on the backburner, while certain social benefits—such as unemployment insurance and survivors' pensions—had their coverage slashed.[12]

Reduced investment in the rush to cut spending, along with the pell-mell passage of reforms that undercut social rights enshrined in the Constitution, has compromised the country's ability to resurface from a recession that has shown itself to be the severest in several decades. Social spending, which exceeded expectations by growing faster than GDP from 2003 to 2014 (6.1 percent p.a. as opposed to 3.3 percent p.a.) leads the list in the cuts. While it apparently went from 21.8 percent of GDP in 2003 to 26.1 percent in 2014[13]—an unusually hefty portion for a developing country—it seems poised to shrink rapidly as a proportion of domestic product.

Cuts in government social spending tend to exacerbate the shrinkage in consumption by households—which fell 4 percent from 2014 to 2015—and of services. Both are dwindling visibly, as the job market deteriorates the cost of credit rises and defaults proliferate, to say nothing of the impact of inflation that has followed the depreciation of the exchange rate and the rise in public utility rates, both with negative effects on available household income for consumer expenditure.

Though there is practically a consensus[14] that the acceleration of inflation seen in 2015 was not the result of an excess of demand but rather the response to an unfavorable supply shock (an increase in administered

prices and the effect of the massive exchange devaluation on prices), the treatment that was applied still toes the line of the monetary orthodoxy in place since 1999, which was preserved under the Workers' Party. It rests on the "macroeconomic tripod" of a primary budget surplus, a floating exchange rate, and inflation targeting. The tripod[15] subordinates macroeconomic policy to its rigid adherence to inflation targets; in raising interest rates and depressing economic activity, it penalizes labor and compromises tax revenues, but rewards rentiers and financiers, those holding the public debt securities that devoured 8.5 percent of GDP in 2015 alone, having taken 5.5 percent in 2014. It should be emphasized that this was the largest spending item in the public federal budget for 2015, outstripping even expenses on the whole of the Brazilian social insurance system, which came to 8.2 percent of GDP.[16]

At the root of this sky-high spending on interest payments is the Selic rate (the country's base interest rate), which hiked up to 14.25 percent in 2015. This marks a definitive departure from the declining phase which had taken the rate from 26.50 percent in early 2003 down to 7.25 percent at the turn of 2013. With this new squeeze on monetary policy, the average nominal interest rate for households (consumer credit) reached a peak value of 64.8 percent p.a.[17] at the close of 2015 marked by profound reversals of expectations. According to the Central Bank, in December of 2015 the average interest rate for revolving credit hit a record of 431.4 percent p.a., while interest on overdraft banking came up to 287 percent p.a. It should be noted that it had stood at 41.3 percent p.a. just two years earlier, which was already a prohibitive level, given an inflation rate of 5.9 percent p.a. at the time. Estimates from the National Association of Executives in Finance, Administration, and Accounting (ANEFAC) are considerably more pessimistic, calculating that interest rates on consumer credit came to an average of 140 percent p.a. in December 2015.[18]

Falling revenues, rising unemployment, and restricted credit as a result of persistently high interest rates dealt a blow to retail sales,[19] which had fallen 7.8 percent by November 2015 as compared to 2014, the largest drop in 12 years. Services were not left unscathed, and also saw a record decline of 6.5 percent over the same period, following the downturn in industrial activity (−6.2 percent). Within manufacturing industry, the drop from 2014 to 2015 was of the order of 9.7 percent. The plunge in capital goods investment was also remarkable, declining of 14.1 percent.[20] A downturn of such proportions evidently wound up affecting GDP per capita, which fell 4.6 percent, taking it to R$ 28,800.00 in 2015 (or approximately US$ 8600).

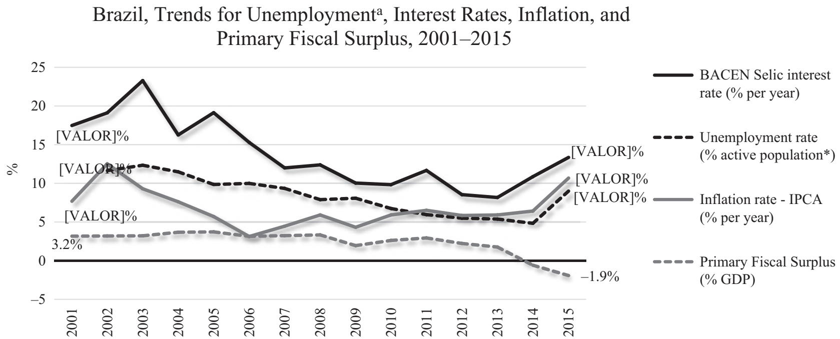


Fig. 2.1 Brazil, trends for unemployment (persons aged 10–65 classified as employed or unemployed during the week of the survey), interest rates, inflation, and primary fiscal surplus, 2001–2015 [*Source*: for interest rates, Bacen interest rate (base interest rate, annual average of daily rates for 252 days); for unemployment, monthly employment research—IBGE (annual average of monthly rates for six metropolitan regions; 2015 data from January to October); for inflation—IBGE (annual growth rate of IPCA price index); for primary fiscal surplus—Bacen]

Figure 2.1 systematizes some of the trends of the decade, emphasizing the ruptures brought by 2015.

The only positive note for 2015, a year marked by severe recession, came in the form of bank profits, which withstood the crisis with an average real growth rate of 11.3 percent.[21] The three largest private retail banks (Itaú, Bradesco, and Santander) performed even better, with their profits rising 15 percent[22] in 2015 relative to 2014. Figure 2.2 shows the progression of the profitability[23] of the financial sector next to the array of Brazil's 500 largest (non-banking) firms over 17 years. From 2003 onward, the profitability of the financial sector not only opens up a large lead over the rest, but it also remains buoyant as non-banking business flounders. Considering average profitability rates from 2003 to 2010 and 2011 to 2014, banks clearly improve, with their return on equity going from 18 to 21.5 percent, while non-banking corporations see their rates decline from 9.7 to 5.2 percent.

It is worth stressing that the Brazilian banking system is extremely concentrated, with the five biggest banks[24] holding 83 percent of all financial assets and 85 percent of all the money in the hands of financial institutions.

It becomes clear that the banking/financial sector reaped extraordinary benefits from the cycle of economic recovery that shaped the Workers'

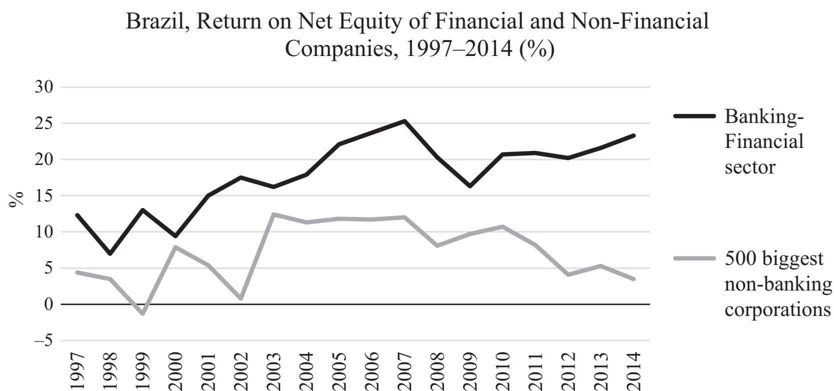


Fig. 2.2 Brazil, return on net equity of financial and non-financial companies, 1997–2014 (%) [*Source*: Pinto et al. (2016). Data from "Exame" magazine ("Maiores e Melhores" 2015) for non-financial companies and Bacen for banking-financial sector]

Party's administrations, even profiting from the post-2010 economic slowdown. What is most striking is the growing relevance of the financial sector as a source of profits as compared to non-financial firms, which might be expected to be elevating "portfolio income"[25] as a portion of their revenue by virtue of the processes of financialization.

One of the most disquieting signs of this trend, however, is the resurgence of inequality. The great novelty of the new millennium had been the steady, sustained fall in the country's Gini index, which went from 0.553 in 2003 to 0.489 in 2014,[26] dipping below the 0.5 barrier for the first time in its history. One would have to go back to the pre-military coup years, in the 1960s (and hence before the economic miracle[27]) to find a Gini index at 0.500.[28] It rose continuously over a prolonged period, hitting 0.636 in 1989 and remaining at a level of 0.6 for practically the entirety of the 1990s.[29] The index only began to register below 1960 levels starting in 2011, as Fig. 2.3 demonstrates.

The country seemed to have finally found the antidote to its greatest ill. But then the Gini index halted its fall and began to rise again, signaling the possible collapse of a model that had appeared successful and promising, given its roots in a wage-led strategy. The new Continuous National Household Sample Survey (Pesquisa Nacional por Amostra de Domicílios Contínua, or PNAD Contínua),[30] whose historical series began in 2012,

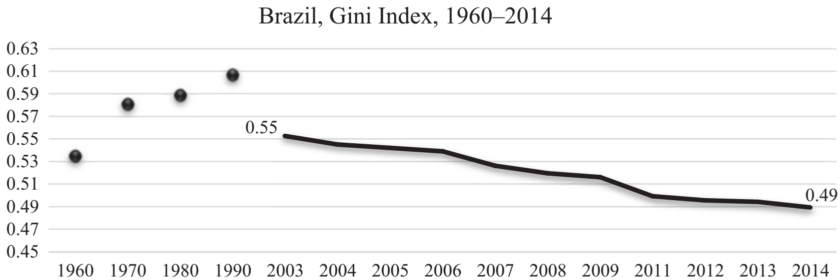


Fig. 2.3 Brazil, Gini index, 1960–2014 [*Source*: Neri (2012) for 1960–1990 and PNAD (IBGE) for 2003–2014; for 2003–2014, Gini index of the distribution of average monthly income for workers over 15 years of age; excludes rural areas of Rondônia, Acre, Amazonas, Roraima, Pará and Amapá]

has revealed a countertrend over the course of 2015: the Gini index, measured by labor earnings increased from 0.493 during the first quarter of 2015 to 0.497 by the end of the year.

Authors such as Marcelo Medeiros et al. had already warned that the true dynamics of inequality were not being adequately captured in the household surveys that are generally used to measure labor earnings and household income. Comparing data from individual income returns with figures from household surveys, the authors concluded that "the concentration of income among the wealthiest[31] is, according to tax data, substantially greater than had been estimated by household surveys, with no trend toward a decline in recent years. On average, between 2006 and 2012, the richest 1 percent in Brazil held just under 25 percent of total income, with the richest 0.1 percent raking in 11 percent."[32]

Hence, Medeiros et al., using data from the Receita Federal, question the much-heralded improvement in the deconcentration of income and wealth over the course of a decade of growth with inclusion. In their opinion, analyses based exclusively on the evolution of salaries cannot grasp the gravity of a series of severe asymmetries that remained practically untouched during the growth years.

Whatever the measure, the portrait of Brazilian inequality as painted by these household surveys is an eloquent representation of the small steps forward that have been taken and the urgency of all that remains to be done if the goal is truly to make Brazilians more equal. Using data on declared monetary income, one observes that as of 2014, the poorest 60

percent held just under one-fourth of the nation's income, as opposed to 18.1 percent in 2003. This marks a significant advance, especially when one turns to the poorest 20 percent, whose proportion of the distribution of labor income went from 2.5 percent to 3.6 percent – although this falls far short of what might be expected in order to set minds at ease regarding the path ahead. The richest quintile, meanwhile, saw their share fall from 62.3 percent in 2003 to 56.3 percent in 2014,[33] while the fourth quintile saw no variation, holding steady at 19.6 percent of labor income.

The speed with which the macroeconomic situation and social indicators have fallen apart, and that the portrait of a Brazil which seemed to have almost made it is already yellowing and fading before our eyes, are sources of surprise, embarrassment, and apprehension. It becomes even more perplexing if one remembers just how recently, in the 2000s, the country had become a role model for how growth with redistribution in a democratic state based on the rule of law with low inflation, against the grain of its former profile.

The Boom Years (2003–2014): Making Up for Losses with Some Innovations in the Social Realm

Recent years, for which it had become possible to make out a new pattern of growth (this time a more inclusive one), seemed to show that one of the most unequal societies in the world had been able to trace a more promising future for itself.

From 1950 to 1980, at the peak of the developmentalist era, the high growth rates of the period, on the order of 7.4 percent p.a.,[34] went hand in hand with growing inequities, a salary crunch and long periods of authoritarian rule. It is true that these were years—the 1970s in particular—of a sharp downturn in poverty,[35] given rural-urban migration patterns and profound changes in the productive structure, which, under the aegis of the industrialization process led by the State,[36] fed the increase in average income. This period lent additional weight to an emerging urban middle class, which remained nonetheless quite scanty.

In the 2000s, however, the context was radically different. Characters who had been waiting in the wings or shut out altogether became the protagonists of a plot where there was room for all. Nobody was left out. The myth of the middle-class country[37] was splashed across the headlines and the nation's imagination. The twenty-first century seemed poised, at

long last, to pluck Brazil from its history of underdevelopment. After suffering through two decades (1980–2003) of low growth (2 percent p.a.) and considerable macroeconomic instability, much of that period having taken place under a fully democratic system, and having vanquished the high inflation that made it difficult to think in the long term and conceive of the future, Brazil—in step with the rest of Latin America—was ready to begin a series of rosy years.

This phase of redemption began in 2003–2004, with the ascent of the Workers' Party to the presidency. Set against an extremely favorable external environment, this new popular government forged a strategy meant to weave together paths to recovery and innovations that gestured toward structural changes to come. The most promising of these was the transition to a modern mass consumer society, turning away from the model of the economic miracle, characterized by a "domestic market with highly concentrated income."[38] The modernizing authoritarian pact[39] in place from 1965 to 1980, though it managed to grow GDP per capita at a rate of 5.4 percent per year, had exacerbated inequalities and social exclusion; now growth with greater equity emerged as a possibility. This transition would attempt to overcome the structural obstacles in the way of a successful catching-up strategy. The aim was to overcome the dynamic inadequacies of Brazil's industrial base by way of a swift boost in aggregate demand—spurred by real wage increases and increased government spending, and hence a better income distribution. With all this in place, it was hoped that a virtuous cycle of development might emerge, thus incentivizing investment, which would lead to an increase in productivity. This would then positively affect growing gains in real wages, broadening consumption, which would allow for the cycle to continue on an ever-larger scale. The Keynesian virtuous circle growth model, buried during the neoliberal era,[40] was poised to be disinterred through the adoption of expansionist policies designed to increase household income, letting internal demand drive investment and a new pattern of growth.

At first, this new cycle of growth was led by exports and investment.[41] Soon thereafter, it came to rest on rising income, but also—in an unprecedented development—on the vigorous expansion of consumer credit.

One of the first positive signs of recovery came in the form of the newly revitalized job market, which saw the creation of 21 million formal jobs between 2003 and 2014[42] and the revalorization of the minimum

wage, the most effective social policy of the entire period. Progressive scholars[43] affirm with one voice that the minimum wage has been crucial in counteracting wage dispersion and effectively fighting inequality. A statutory minimum wage works to push demand and job growth, and is now an indisputable and inescapable element of all strategies to spur growth in developed nations where it was either previously abolished or frozen. Moreover, as Robert Boyer reminds us, "a dynamic policy for minimum wage increases might temporarily hurt less productive firms but it is an incentive for labor saving innovations and a long run increase in productivity."[44]

Indeed, since the conquest of monetary stability in 1994, the minimum wage[45] has gradually recovered its purchasing power.[46] Over the course of 20 years, its real value has more than doubled (as may be seen in Fig. 2.4), growing far faster than average earnings or the rate of employment formalization. However, it would be under the administration of Luiz Inácio Lula da Silva (universally known as Lula), thanks to a new indexing rule first adopted in 2008, that increases in the minimum wage would shift into a higher gear. The rule in question incorporates inflation from the previous year and the positive rate of change for the GDP two years prior—

Fig. 2.4 Brazil, growth index of minimum wage, average earnings and formal employment (amount of employers, army, statutory civil servants and registered employees, except for domestic workers, in total occupied population ages 10–65), 1995–2014 (1995 = 100) [*Source*: for minimum wage, IBGE (constant values as of October 2014, adjusted by national consumer price index—INPC); for average earnings, national household sample survey—PNAD/IBGE (real values as of October 2014, calculated by IPEA); for formal employment—PNAD/IBGE]

which, in case of growth, ensures a real boost in minimum pay. When one corrects for past inflation and incorporates the real growth of the economy, the minimum wage can have a significant impact on the reduction of inequalities in the job market. Effects are felt not only in the formal sector of the economy, but also in the informal sector, earnings from which tend to be pegged to its formal equivalent.[47] This was the remarkable "silent revolution"[48] carried out under the Workers' Party.

From 2003 to 2014 alone, the minimum wage saw real gains of over 60 percent,[49] while the purchasing power of the average salary rose by around 43 percent. This boosted the ratio of minimum wage to average earnings from 38.9 to 43.9 percent over this period.

Among the studies that highlight the decisive importance of the rise of the minimum wage in the recent drop in inequality in Brazil, Brito, Foguel, and Kerstenetzky broke down its contribution as a floor for labor remuneration, a welfare floor (for retirees and pensioners), and a compensatory benefit—since the minimum wage is what is received by those eligible for the Continuous Cash Benefit (Benefício de Prestação Continuada, or BPC). They concluded that between 1995 and 2013, the period covered by their study, the minimum wage contributed 72 percent to the reduction of inequality in per capita household income, as measured by the Gini index. That being said, the study also points out that between 2002 and 2006, "for every 1 percent real increase in the value of the minimum wage, the distributive effect of the policy was 2 percent. From 2006 to 2011, however, the effect was slightly smaller, at 1.8 percent."[50]

Though on the rise, Brazil's statutory minimum wage remains low even by Latin American standards. Figure 2.5 indicates that it corresponds to US$ 245 per month in March 2016, slightly above the Colombian minimum wage,[51] but far below the figures in place in Argentina, Ecuador, Uruguay and Chile.

Another distinguishing factor is that 61 percent of the 21 million formal jobs created between 2003 and 2014 paid up to two minimum wages,[52] thus benefiting more precariously situated, less educated groups, where women and Afro-Brazilians are a significant presence. This was yet another indirect effect of the real rises in the minimum wage, which helped narrow gender and race pay gaps, albeit slightly. This performance favored workers at the tail end of the income distribution, those most vulnerable and least able to compete on the job market, and also likely reined in the overvaluation of salaries in the midrange sectors with higher education and more experience. Indeed, a look at the data from the Annual Social

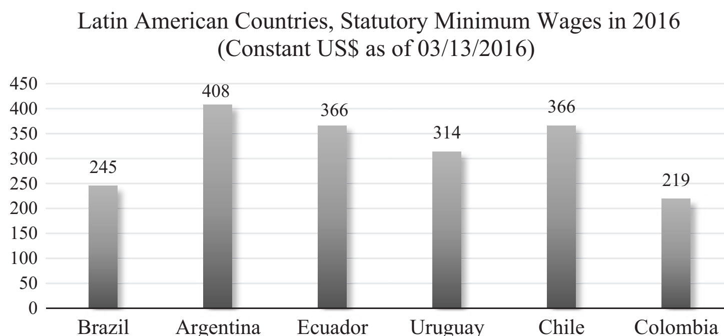


Fig. 2.5 Latin American countries, statutory minimum wages in 2016 (constant US$ as of March 13, 2016) [*Source*: For minimum wages, national public agencies; for exchange rate, Bloomberg]

Information Report (Relação Anual de Informações Sociais, or RAIS), which reports solely on formal employment, shows that as the real value of the minimum wage steadily recovered, occupations earning up to two minimum wages expanded. While they came to just 36 percent of formal jobs in 2001, these posts would make up 57 percent in 2007 and then nearly two-thirds of the total by 2013.[53]

With the spread of formalization on the job market, the percentage of those employed in regulated activities rose to 57.7 percent in 2014, as opposed to 45.8 percent in 2003.[54] Metropolitan areas were witness to an even speedier advance, as the rate of formalization hit a record rate of 62.9 percent in 2014. It becomes clear that informality, while on the decline, is resilient: it affected around 40 percent of the workforce in 2014, even after a solid decade of advances in terms of increasing formal employment opportunities.

The 2000s thus brought a measure of recovery vis-à-vis the decade of the external debt crisis (the 1980s) and the first half of the 1990s, when salaries had plunged and inequality had remained high. In parallel, this period brought fresh accomplishments such as the decline in informality and the reduction of pay gaps on the job market, thanks in large part to the policy of the raising of the minimum wage.

This came in lockstep with the implementation of new rights, which were either created or broadened by the Democratic Constitution of 1988.[55] On the poverty-fighting front, for example, the institutionalization of the Unified Social Assistance System (Sistema Único de Assistência

Social, or SUAS) came to guarantee means-tested subsistence income for the demonstrably poor. At first, the program only applied to the elderly (those aged 65 and above) and handicapped living in poverty, providing them with the Continuous Cash Benefit (Benefício de Prestação Continuada, or BPC, introduced in 1993). New programs, however, such as Bolsa Família (2004), were introduced to significantly broaden the degree of coverage of a wide swath of the neediest and most marginalized sections of the population, previously left out by the BPC. For the first time in Brazil, poverty was targeted by a pool of public policies.

Between 2003 and 2014, the percentage of Brazilians below the poverty line[56] set by Bolsa Família fell from 27.6 to 6.5 percent, when measured by per capita household income.[57] That is to say that around 35 million people left poverty in just over 10 years. It is true that the fertility rate over those years fell precipitously,[58] contributing in turn to the stunning performance of indicators tied to monetary poverty. Even so, the extreme poverty rate fell remarkably, from 10.8 to 2.5 percent over the same period. If, however, we were given a relative poverty line, labeling those whose per capita household income fell below 50 percent of average income and thus heeding Peter Townsend's observation that "poverty is not an absolute state [but] relative deprivation,"[59] then things no longer look so rosy. From 2003 to 2014, relative poverty only dipped from 25.2 to 22.3 percent.

One of the factors contributing to Bolsa Família's much-touted "effectiveness" was the deliberate preservation of extremely low poverty and indigence thresholds—at levels patently inadequate for a high middle-income country, as is the case with Brazil. Moreover, these levels were often not indexed to past inflation; for example, for the five years between 2009 and 2013, Bolsa Família's poverty and indigence lines were not adjusted for inflation, which came to 31.83 percent over the period in question.[60] This made the downward trend in poverty rates a matter of course, given the depreciation of the cutoff lines that determined the eligibility of the program's target population. On that note, by the end of 2015, the poverty and indigence lines in Brazil stood at R$ 154 (US$ 40) and R$ 77 (US$ 20), respectively, of per capita household income—when, if corrected for inflation, they would have come to R$ 201 (US$ 52) and R$ 100 (US$ 25.8)—a 22-percent discrepancy, in other words.

Independently of the magnitude of the progress made, it is true that the poorest sectors of Brazilian society saw a considerable improvement in their condition, thanks to relatively constant access to a monetary income which facilitated their incorporation into the market economy and alle-

viated some of the severest levels of poverty. One of the milestones of the new millennium was the robust advance of monetary income among the neediest groups in Brazil. This growing degree of monetization may be seen in the data collected by the National Household Budget Survey (Pesquisa de Orçamentos Familiares, or POF), which the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística, or IBGE) carried out in 2003 and 2009. Over this period, the portion of disposable monetary income rose across all deciles of the distribution, but most strikingly so in the lowest quintile, where it rose from 62 to 70 percent.

None of this would have come about, however, if it had not been grounded in a new cycle of growth, shaped this time around by higher levels, the expansion of global financial markets, the surge in commodity prices (204 percent between 2002 and 2008),[61] and an increase in international demand, particularly from China. Denise Gentil and Victor Araújo emphasize that this favorable external situation generated a series of positive effects for the Brazilian economy, such as an "improvement in the external balance and, combined with a policy of high interest rates (although they remained lower than during Fernando Henrique Cardoso's second term), stable exchange and inflation rates."[62]

Figure 2.6 examines the variation in GDP under Fernando Henrique Cardoso's two terms (1995–1998 and 1999–2002) as compared to those of Lula (2003–2006 and 2007–2010) and Dilma Rousseff's first term (2011–2014). Despite the Great Recession of 2007–2008 (which came

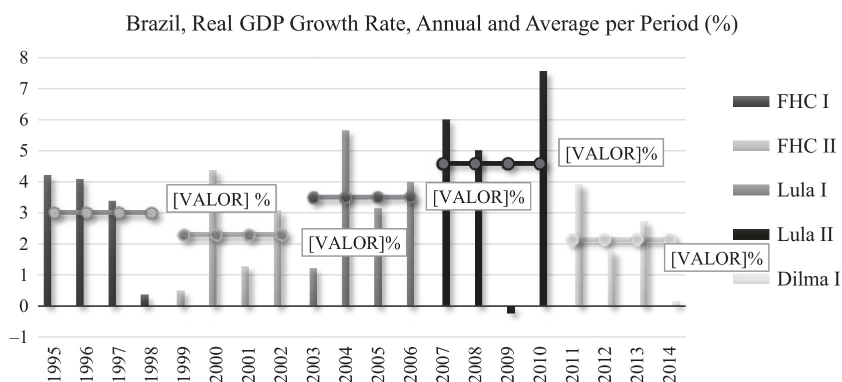


Fig. 2.6 Brazil, real GDP growth rate, annual and average per period (%) [*Source*: Bacen]

to Brazil with a lag, in 2009), Lula's second term, from 2007 to 2010, notched up an annual rate of GDP expansion of 4.6 percent, double that of the second term of his predecessor (2.3 percent p.a.) and higher than what would be seen under Rousseff's first term (2.1 percent), when the economy began to decelerate notably.

Interestingly, the period 2003–2014 is marked by a dynamism determined by different variables. Table 2.1 shows that from 2003 to 2006, exports-led expansion, with an average growth rate of 10 percent p.a., while from 2007 to 2010 gross fixed capital formation took the lead, expanding at 10.2 percent p.a. on average. From 2011 to 2014, the baton was passed to household consumption, which kept up the rate of expansion with an average growth rate of 3.1 percent, reacting to the effects of the international crisis. It should be said that consumption played an important role over all three periods, helping to accelerate during the phase of expansion and keeping up the rhythm of the economy during the recessive phase. This can be attributed principally to the change in the structure of consumption, which had come to rest increasingly on credit, deadening the effects of the economic cycle.

Household consumption was responsible for approximately 61 percent of GDP on average from 2003 to 2014, as seen in Table 2.1. Gross fixed capital formation, meanwhile, registered an annual average of the order of 20 percent, while exports steadily declined, falling from 15 percent during the first phase of the cycle, 2003–2006 (during the commodities boom) to 11.8 percent of GDP from 2011 to 2014. On average, from 2003 to 2014, exports represented just 13 percent of GDP. Both of these indicators (investment and exports) reflect vulnerabilities in Brazil's economy that only deepened in spite of this stretch of prosperity.

One may glean from the data that Brazil tended to become less competitive on international markets—this despite investment growing more effectively, at an annual average rate of 5.1 percent from 2003 to 2014 (see Table 2.1). It is true that 2010 saw investment rise 17.8 percent from the previous year, when the effects of the international crisis had made themselves sharply felt. This new burst of investment was not, however, enough to sustain a trajectory that might reconfigure the growth pattern and make viable a model that would gradually place it in the lead on the way to the recovery of economic activity. Table 2.1 also indicates that by 2011 investment had begun to swoon in relation to previous periods, registering decreases in both 2012 and 2014.

Table 2.1 Brazil, components of aggregate demand, 2003–2014

	Share of GDP (%)					*Real growth rate (annual %)*					
	Household consumption	*Government consumption*	*Gross fixed capital formation*	*Exports*	*Imports*	*Household consumption*	*Government consumption*	*Gross fixed capital formation*	*Exports*	*Imports*	*GDP*
2003	61.8	18.9	17.1	15.2	12.9	−0.7	1.6	−3.9	11.0	−0.5	1.2
2004	60.2	18.3	18.0	16.5	13.1	3.9	3.9	8.4	14.5	10.4	5.7
2005	60.4	18.7	17.4	15.2	11.8	4.3	2.0	2.3	9.6	7.5	3.1
2006	60.4	18.8	18.0	14.4	11.7	5.4	3.6	6.1	4.8	17.8	4.0
2007	59.9	18.7	20.0	13.3	12.0	6.3	4.1	12.0	6.2	19.6	6.0
2008	59.8	18.6	21.8	13.5	13.7	6.4	2.1	12.7	0.4	17.0	5.0
2009	62.0	19.4	19.0	10.9	11.3	4.2	2.9	−1.9	−9.2	−7.6	−0.2
2010	60.2	19.0	21.8	10.7	11.8	6.4	3.9	17.8	11.7	33.6	7.6
2011	60.3	18.7	21.8	11.5	12.2	4.8	2.2	6.6	4.8	9.4	3.9
2012	61.7	19.3	20.3	12.0	13.3	3.9	3.2	−0.6	0.5	0.7	1.8
2013	62.1	19.6	20.7	12.0	14.4	2.9	2.2	6.1	2.1	7.6	2.7
2014	62.5	20.2	20.1	11.5	14.3	0.9	1.3	−4.4	−1.1	−1.0	0.1
2003–2006	60.7	18.7	17.6	15.3	12.4	3.2	2.8	3.2	10.0	8.8	
2007–2010	60.5	18.9	20.7	12.1	12.2	5.8	3.3	10.2	2.3	15.7	
2011–2014	61.7	19.5	20.7	11.8	13.6	3.1	2.2	1.9	1.6	4.2	
2003–2014	60.9	19.0	19.7	13.1	12.7	4.1	2.8	5.1	4.6	9.5	

Source: IBGE, Contas Nacionais, ref 2010

The rate of expansion for household consumption, however, rose every year, albeit from 2013 to 2014 at a more tepid rate. While less vigorous, it remained an indispensable element in the growth process, still stimulated by the continuous rise in income, low unemployment, an abundant supply of credit, and an overvalued exchange rate (hence favorable to imports), leading to the deflation of the prices on many imported goods that quickly captured the domestic market. Imports rose swiftly for a phase between 2001 and 2014 (growth of 114 percent), as seen in Fig. 2.7, boosted by an exchange-rate overvaluation of the order of 33 percent during the same period. Table 2.1 underscores the dynamism of imports (average growth rate of 9.5 percent p.a.), including during the phase of greatest growth (15.7 percent from 2007 to 2010), demonstrating the existence of a hefty outpouring of income and investments during this phase.

What Fig. 2.7 does not show, however, is the seriousness of the process of precocious deindustrialization[63] or how it deepened under these circumstances, given a loss of competitiveness for Brazilian exports of manufactured goods, which also led to a deterioration of the balance of trade. By way of illustration, one might recall that from 2003 to 2014, the manufacturing industry's share of GDP fell from 16.9 to 10.9 percent,[64]

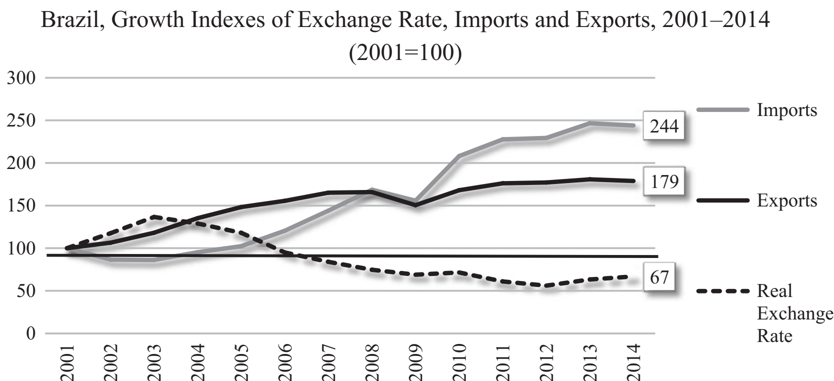


Fig. 2.7 Brazil, growth indexes of exchange rate, imports and exports, 2001–2014 (2001 = 100) [*Source*: for exchange rate—BACEN; for exports and imports—Brazilian national accounts (IBGE); exchange rates as averages of monthly data adjusted for inflation as calculated by the Central Bank, aggregated per year; exports and imports as annual variation of trade in goods and services over GDP]

while the increase in consumption, shored up by rising household income, was compensated by a bump in imports.

The extraordinary increase in imports covered a wide range of items, including capital goods, intermediate goods, and consumer durables. A 2015 study by Carlos Medeiros indicates that the rate of growth for import consumption across 22 sectors hit 13.9 percent p.a. on average between 2003 and 2009, whereas domestic consumption saw a variation of just 3.7 percent p.a. over the same period.[65] With a boost from the considerable appreciation of the exchange rate, falling relative prices[66] and household income on the rise, imports of household appliances, for example, grew a record 33.8 percent p.a. over the years in question. Close behind came electronics, transportation equipment, textiles and footwear, the latter two having traditionally been strong points in Brazil's exports. Medeiros thus recognizes that the significant expansion of consumption did not produce the expected positive effects on the productive sector, which remained marked by severe structural heterogeneity.

Meanwhile, the contours of the country's export lines shifted, with commodities taking center stage (49 percent of exports in 2014, as opposed to 29 percent in 2003).[67] Many authors[68] cast the steady loss of dynamism of domestic industry as a defining characteristic of the Workers' Party governments of Lula and Dilma, with no attempts to get back on track; exports had slid back into a pattern of regressive specialization, dominated by raw materials, despite the paramount role played by the National Development Bank (BNDES) in reshaping catching-up strategies.

The Credit Market Boom Throughout the 2000s

A decisive factor in making household consumption a significant driver of growth was the swell of consumer credit (loans), as part of a strategy to broaden accessibility to the financial system in general. From 2003 onward, new financial mechanisms were tailored to reduce risks for lenders, thereby enhancing the scope and scale of credit markets (hitherto a timid presence in Brazil). This move would also target and curb financial exclusion, which had remained widespread prior to the 2000s in a context of high informality in the labor market, towering poverty rates and other dimensions of financial vulnerability that called for caution. Lack of access to finance has been a persistent trait of the majority of Brazilian households, effectively preventing the worst-off from using financial services (beyond consumer loans alone).

Through the late 1980s, the instability of the macroeconomic context had proved unfavorable for investments and indebtedness. Jennifer Hermann states that, contrary to expectations, "the strengthening of private banks throughout the 1970s did not result in the formation of a private credit system."[69] Yet by the end of the 1980s, Brazil would embark on a process of financial liberalization and deregulation, in line with the main features that prevailed in advanced industrialized economies. Different measures and regulations have been adopted since then,[70] focused on diversifying stock markets and financial markets and enhancing the borrowers' take-up rate. Against the grain of the pattern in developed countries, in Brazil (as well as in many developing countries), short-term credit loans and the secondary market grew more significantly relative to long-term loans and primary market issuance. As Hermann puts it, "paradoxically, economic growth has been far more stimulated in these countries than in the advanced ones."[71]

With the consolidation of macroeconomic stability from 1994[72] onwards, under Fernando Henrique Cardoso's first term (1995–1998), financial liberalization gained new impetus. While credit loans as well as the stock market should have blossomed throughout the 1990s, both were ultimately restrained by the 1997 Asian exchange rate crisis and then by the Brazilian one in 1999, which severely affected the Brazilian financial system under reform. Moreover, a very restrictive macroeconomic policy was hardly supportive of economic growth. The end result was that "financial policy from 1990–2006 was unable to make bank credit a strong ally of development in Brazil" for a decade and a half.[73] For this very reason, total outstanding credit as a share of GDP rose only slightly and irregularly from 1990 to 2004. This first wave of financial liberalization contributed mostly to strengthening and expanding the stock market, rather than fomenting investment or consumption.

However, total outstanding credit as a percentage of GDP begins growing rapidly, reaching 54.8 percent in 2015 as opposed to 22 percent in 2001,[74] with a backdrop of a more favorable macroeconomic context (key features of which were the gradual stabilization of the exchange rate, exports bouncing back amidst an upswing in the commodities cycle, real wage growth, and renewed consumer confidence).

By December 2015, personal credit (households) corresponded to 26 percent of GDP (or the equivalent of 47 percent of total outstanding credit operations, both personal and corporate), while corporate credit amounted to 28.8 percent of GDP. The neck-and-neck performance of

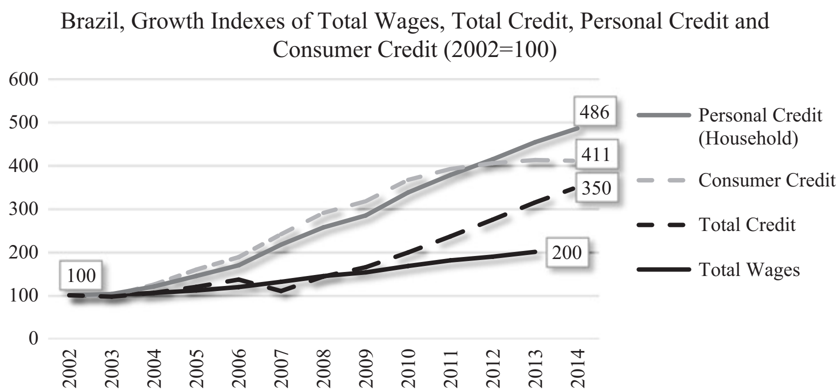


Fig. 2.8 Brazil, growth indexes of total wages, total credit, personal credit and consumer credit (2002 = 100) [*Source*: IBGE (national accounts) and Bacen; constant values of December 2014 adjusted by consumer price index (IPCA); cumulative values as of December, with changes in accounting methodology by the Central Bank since 2007]

these two modalities of credit pays tribute to the strategic importance of personal credit during this phase of economic recovery marked by household consumption.

Figure 2.8 illustrates the speed at which total outstanding credit and other such modalities expanded, especially personal and consumer credit.[75] While the wage bill doubled between 2002 and 2013,[76] total credit soared 250 percent, "the line of credit" allocated to consumer credit was raised by 300 percent, and personal credit nearly quadrupled.[77] Therefore, from 2003 to 2014, personal credit and consumer credit grew at a much faster rate than total wages and the supply of total credit, as shown in Fig. 2.8.

In a recent article, Gilberto Borça Júnior and Danilo Guimarães estimate the impact of the expansionary cycle of personal credit on the average growth of the economy from 2004 to 2013 and on the behavior of household consumption which, as indicated in Table 2.1, withstood the effects of the crisis and external turbulence, contributing to the level of aggregate demand throughout the period. According to the authors, "if it weren't for the performance of household consumption, activity would have contracted by 2.6% in 2009, rather than just 0.2%."[78] Consumer credit alone, they affirm, was responsible for nearly 45 percent of the average growth in household consumption[79] and for one-third of the growth in GDP.[80]

Borça Júnior and Guimarães' conclusions reinforce my assumptions[81] that, in addition to the rise in labor income and the fall in wage dispersion, both of which propelled the growth of the domestic market and helped lay the foundation for a new phase of economic prosperity, credit and the financial system must be recognized as pillars of this new model for growth.

Credit appears to have become gradually almost as relevant as wage earnings in boosting demand growth in the recent economic cycle in Brazil. To test this hypothesis, against the grain of the majority of analyses, which tend to attribute the expansion of the domestic consumer market almost exclusively to the real increase in wages, I ran some regressions with retail sales as the dependent variable (LOGRETAILSALES). The aim was to demonstrate the central role of new consumer credit loans (LOGNEWLOANS), along with household income (expanded wage bill, LOGWBE) and the real exchange rate[82] (LOGEXCHANGE), on the expansion of retail sales. The latter almost doubled between 2003 and 2014. The aim is thus to estimate the behavior of not only income but also consumer credit (household loans only),[83] which saw a rate of growth four times higher than that of the wage bill, as well as the exchange rate, which undoubtedly contributed to driving internal consumption and to galvanizing imports of countless durable goods.[84]

All the variables are Brazilian Reais (constant as of December 2015) and expressed in logarithmic form, so that their coefficients may be interpreted as elasticities.[85] The sample ranges from March 2004 to June 2015, the choice of the period having been determined by series availability.[86]

The regression was estimated as follows:

$$Logretailsales_t = \beta_0 + \beta_1 logexchange_t + \beta_2 logWBE_t + \beta_3 lognewloans_t + u_t$$

Since these time series are non-stationary, but all have the same order of integration[87]—I(1)—and are cointegrated, it is possible to work with level of the series and preserve the stable relationship between the variables in both the short and long term,[88] using the least squares method to estimate the parameters of the regression model.

The results[89] are reported in Table 2.2.

As for the value of the parameter estimates, it was observed that they presented the expected signs: the "wage bill" and "new loans" variables positively affect retail sales, with the first variable having a larger effect than the second in determining the dependent variable. The exchange rate of the Brazilian Real had a negative effect, with increases in the exchange

Table 2.2 Estimates for regression 1 (complete sample 2004–2015)

	Coefficient	*Std error*	*t-statistic*	*Prob.*
LOGNEWLOANS	0.372851	0.061613	6.051461	0
LOGWBE	0.936526	0.051998	18.01096	0
LOGEXCHANGE	−0.077259	0.034117	−2.264524	0.0252
C	−10.35129	0.454366	−22.78182	0
R-squared	0.970772	Mean dependent var		4.429212
Adjusted R-squared	0.970108	S.D. dependent var		0.242116
S.E. of regression	0.04186	Akaike info criterion		−3.479997
Sum squared resid	0.231299	Schwarz criterion		−3.39433
Log likelihood	240.6398	Hannan-Quinn criter.		−3.445184
F-statistic	1461.422	Durbin-Watson stat		1.568799
Prob(F-statistic)	0			

Source: own elaboration

rate (devaluation of the Real) leading to reduction in retail sales. This last variable had the smallest effect on retail sales, as compared to new credit loans and disposable household income.

To identify the occurrence of changes in the Brazilian economy between 2004 and 2015, structural break tests were applied to the model, making it possible to investigate whether two or more periods display significant differences in terms of the parameters that establish the relationships between the series. The test indicates whether a structural break has occurred, and in which period (see Annexure 1).

Indeed, it was possible to identify the occurrence of two structural breaks, in July 2007 and in May 2012, leading to the division of the sample into three subperiods in which the variables behaved differently: (i) from March 2004 to July 2007; (ii) from August 2007 to May 2012; and (iii) from June 2012 to June 2015.

Upon disaggregating the regression into three subperiods, one observes an inversion in the degree of importance of the expanded wage bill and consumer credit. From 2004 to 2007 (Table 2.3), the growth of the wage bill was the factor that most influenced retail expansion, with a coefficient three times larger than that of credit. In the second period (Table 2.4), however, there comes a slight drop in the coefficient of the wage bill and an increase in the coefficient of credit concessions, with the exchange rate gaining importance. In the final period (Table 2.5), however, the scenario changes. The wage bill is no longer able to explain the continued expansion of retail, which is now strongly dependent on new and growing credit concessions. The exchange rate remained significant. The importance of

this result is even greater in that it indicates that during the period when economic growth was truly driven by household consumption—post-2011 (Table 2.1)—credit, not household income, was the factor of greatest significance in the expansion of the consumer market.

First Subperiod—March 2004 to July 2007

Table 2.3 Subperiod 1 (2004–2007)

Subperiod 1 (2004–2007)				
	Coefficient	*Std error*	*t-statistic*	*Prob.*
LOGWBE	0.862808	0.155237	5.558002	0
LOGNEWLOANS	0.277679	0.088858	3.124985	0.0035
LOGEXCHANGE	0.098217	0.080239	1.224066	0.2287
C	−9.307471	2.32458	−4.003936	0.0003
R-squared	0.812671	Mean dependent var		4.113829
Adjusted R-squared	0.797482	S.D. dependent var		0.069371
S.E. of regression	0.031218	Akaike info criterion		−4.003162
Sum squared resid	0.036059	Schwarz criterion		−3.835984
Log likelihood	86.06481	Hannan-Quinn criter.		−3.942285
F-statistic	53.50446	Durbin-Watson stat		1.883962
Prob(F-statistic)	0			

Source: own elaboration

Second Subperiod—August 2007 to May 2012

Table 2.4 Subperiod 2 (2007–2012)

Subperiod 2 (2007–2012)				
	Coefficient	*Std error*	*t-statistic*	*Prob.*
LOGWBE	0.818239	0.067551	12.113	0
LOGNEWLOANS	0.318348	0.07038	4.523306	0
LOGEXCHANGE	−0.208028	0.065502	−3.17592	0.0025
C	−7.77011	0.962491	−8.07292	0
R-squared	0.940809	Mean dependent var		4.481268
Adjusted R-squared	0.937521	S.D. dependent var		0.117927
S.E. of regression	0.029477	Akaike info criterion		−4.14395
Sum squared resid	0.04692	Schwarz criterion		−4.001851
Log likelihood	124.1746	Hannan-Quinn criter.		−4.0886
F-statistic	286.1019	Durbin-Watson stat		1.314
Prob(F-statistic)	0			

Source: own elaboration

Third Subperiod—June 2012 to June 2015

Table 2.5 Subperiod 3 (2012–2015)

Subperiod 3 (2012–2015)				
	Coefficient	*Std error*	*t-statistic*	*Prob.*
LOGWBE	−0.027348	0.137222	−0.199299	0.8433
LOGRNEWLOANS	0.448822	0.094542	4.747352	0
LOGEXCHANGE	−0.175282	0.073869	−2.372885	0.0236
C	0.794772	1.641705	0.484114	0.6315
R-squared	0.528015	Mean dependent var		4.697091
Adjusted R-squared	0.485107	S.D. dependent var		0.032552
S.E. of regression	0.023358	Akaike info criterion		−4.573948
Sum squared resid	0.018005	Schwarz criterion		−4.399794
Log likelihood	88.61803	Hannan-Quinn criter.		−4.512551
F-statistic	12.30582	Durbin-Watson stat		1.457461
Prob(F-statistic)	0.000015			

Source: own elaboration

Given the importance of credit concessions in explaining retail sales, one is faced with the question of whether the inclusion of default as a variable[90] may bring significant changes to the regression. Having analyzed the behavior of the "default" variable, we observed that it tended to rise after 2010 (Annexure 2). Hence, in order to incorporate the relevance of this growth in the regression, we incorporated the variable.

The regression was estimated as follows:

$$Logretailsales_t = \beta_0 + \beta_1 logexchange_t + \beta_2 logWBE_t + \beta_3 lognewloans_t + \beta_2 logdefault_t + u_t$$

Table 2.6 results confirm the hypothesis that the recent regime of accumulation, responsible for eroding the barriers hindering the expansion of the domestic market, leaned heavily on credit—particularly during the phase marked by a progressive deceleration in the pace of growth (post-2010). The result contests interpretations which cast the wage bill as the unique vector driving the transition to a mass consumer society, as argued by social-developmentalists.

Table 2.6 Including default as a variable (2012–2015)

	Coefficient	*Std error*	*t-statistic*	*Prob.*
LOGWBE	0.113894	0.10326	1.102991	0.278
LOGNEWLOANS	0.234947	0.080842	2.906253	0.0065
LOGDEFAULT	−0.271754	0.048936	−5.553244	0
LOGEXCHANGE	−0.106387	0.060664	−1.753697	0.0888
C	2.552498	1.368149	1.865658	0.071
R-squared	0.714095	Mean dependent var		4.695956
Adjusted R-squared	0.67944	S.D. dependent var		0.032863
S.E. of regression	0.018606	Akaike info criterion		−5.008574
Sum squared resid	0.011424	Schwarz criterion		−4.793102
Log likelihood	100.1629	Hannan-Quinn criter.		−4.931911
F-statistic	20.60578	Durbin-Watson stat		2.290083
Prob(F-statistic)	0			

Source: own elaboration

For the period 2012–2015, the figures found for the credit elasticities of retail sales, as compared to those for wages and the other variables in the models, indicate the emergence of distinct processes of financialization dominated by interest-bearing income. This regime is largely structured around domestic public debt, financed in an onerous fashion based on delays and extra fees,[91] now added to the ongoing dynamic of increasing family indebtedness.

The regression indicates that the recent, notable cycle of the expansion of consumer credit gave rise to a process of the swift intensification of household debt, to the point where rising default rates become a variable of greater significance, negatively correlated with the growth of retail sales. It thus becomes clear that the exit from the recession devastating Brazil since 2015 is not likely to come through an expansionist strategy, given the reduction in households' ability to pay.

Stimulating internal demand in a sustainable fashion over the long term, with mass consumption as the basis of industrial expansion, will not be a viable way forward while the accumulation regime remains subordinated to rentiers' valorization of capital, and with an export line dominated by commodities. Deficits in current transactions have tended to rise, leading to new increases in interest rates and blocking economic growth down the line.

Considering the accumulation regime[92] as a unique model of growth for a national economy,[93] we might say that this turning point is the reflec-

tion of a radically innovative trend in the process of the valorization of capital in Brazil's economy, with the financial sector becoming increasingly important, and structurally so.

By international standards, however, credit as a portion of GDP in Brazil remains relatively low. In 2010, the ratio of household debt to GDP in the United States was 91.8 percent,[94] while total credit/GDP came to 367 percent[95] in the same year. In Brazil, for 2015, those figures were 48 percent and around 60 percent, respectively. Despite a rapid surge in the volume of debt in Brazil, it remains far below levels prevailing in developed countries. But looking at the pace of debt or outstanding credit growth, the GDP ratio has risen much faster: both almost tripled in Brazil in 12–13 years, while in the US they doubled in more than four decades. Here, the point to be underscored is the shift to an expansionary phase in the supply of credit under Lula, as opposed to the previous administration (presided over by Fernando Henrique Cardoso).

Besides the magnitude of the credit supply, which rocketed over the 2000s, another crucial element here is the creation of new financial mechanisms. These were meant to reshape and enhance access to the realm of finance and to numerous forms of mass-marketed financial products such as small credit loans, new lines of consumer credit, personal insurances, fully funded pension schemes, home mortgages, reaching low and middle-income households and therefore boosting mass consumption. As a result of this process, individuals' perception with regard to their risk-aversion behavior is seen to shift from supporting public welfare schemes toward the provision of well-being through private sector and financial markets.

It may help to cite a few indicators that reflect the broadening of access to, and the supply of, financial products and services in recent years in Brazil, many related to the provision of well-being. No sector was left unscathed, but the onward march of finance was felt particularly strongly in the areas of healthcare, retirement pensions and higher education.

Firstly, the intensive process of the "bankarization" of low-income consumers gained momentum with the creation of millions of new and simplified bank accounts,[96] beginning in 2004. They numbered 13.9 million in all by the end of 2015, as compared to 1.9 million in early 2004.[97]

Secondly, the insurance sector flourished: it came to represent 4 percent of GDP in 2013, after a long period of stagnation around 2 percent from the 1980s. In parallel, Brazil's presence in the global insurance industry rose from 0.5 percent in 2002 to 2 percent in 2013.[98] As is known, one of the ways in which modern finance acts is to expand the

scope of insurance.[99] In Brazil, the healthcare industry was one of the most promising of the new millennium. In 2003, 31.6 million Brazilians had private healthcare plans, while just 3.7 million had private dental care plans. By 2014, however, those figures had risen to nearly 50 million and 20.2 million private plans, respectively.[100] In addition to the breakneck multiplication of private plans, one should note the rise in private healthcare companies' revenue, which more than doubled from 2003 to 2014, going from R$ 63bn to R$ 150bn (in constant Reais as of December 2015).[101]

The most impressive figure is undoubtedly the spectacular growth of the net equity of complementary fully funded pension funds, measured at R$ 500bn in 2015 as opposed to R$ 23bn in 2002 (in constant Reais as of December 2015), indicating a real growth rate over the period of over 2000 percent.[102]

Lastly, a look at the expansion of college loans reinforces the trend. The total number of contracts taken out to finance college education at private institutions through the Student Financing Fund (Fundo de Financiamento Estudantil, or FIES), went from 76,000 in 2010 to 2.1 million in 2015, bolstering government spending from R$ 1bn to R$ 15bn over the same period.[103] It should be noted that in 2015 total federal spending on higher education came to R$ 34.3bn, or just over double the amount doled out to finance degrees at private colleges. But the growth of public financing via credit is not the only channel by which the pent-up demand for higher education is being met. In periods of severe fiscal adjustment, in the wake of the announcement of cuts for FIES's allocated funding, demand for private loans from lenders or even private educational institutions has exploded. One disquieting factor has changed, however: while FIES's interest rates stood at 0.5 percent per month in 2016, educational credit (private banks) features interest rates that vary from 1.35 percent to almost 4 percent per month.[104]

The deepening of the process of the financialization of Brazilian society seems inexorable. In any case, it is evident that the architecture of the Brazilian financial system has undergone profound changes. These shifts began with the deregulation and liberalization of the late 1980s, broadened through the privatization and internationalization of the 1990s, and continue expanding apace with the growing and highly diversified offering of financial services in sectors such as insurance, credit, savings, investment and payments services. New lending strategies also arose in the drive to lifting barriers to accessing financial services. As a result, according to Van

der Zwan, individuals "internalize new norms of risk-taking and develop new subjectivities as investors or owners of financial assets."[105]

Since Brazil has been lauded and emulated for making Bolsa Família an exemplary program for combating poverty—well beyond the true merits of this means-tested scheme—one may imagine that it will soon be acclaimed for its extraordinary performance in promoting financial inclusion and boosting financialization on the broadest array of fronts.

Despite such noticeable trends, in addition to robust evidence for the profitability of finance and the banking system (see Fig. 2.2), the growing influence of the financial business sector (finance, insurance and real state, or FIRE) has not been adequately captured by the System of National Accounts. According to IBGE[106] (2016), the value added share of the FIRE sector shrank over the course of the 2000s, declining from 19.1 percent in 2000 to 15.2 percent in 2013.[107] This paradox remains to be addressed through new and more accurate indices and indicators.

Featuring Financialization in Brazil

The processes of financialization in Brazil had—and continues to have—the public debt management model,[108] in tandem with a conservative monetary policy, as its principal vein of rentier accumulation, fomenting the concentration of wealth in the hands of those with public debt securities, mainly Brazilian and foreign banks (which accounted for 27.7 percent of the total in January 2015), investment (20.4 percent) and pension funds (17.2 percent), the Union (5.8 percent), private insurance companies (4.2 percent) and other kind of investors (4.5 percent). Non-residents hold around 20 percent of all public securities, as opposed to 1.6 percent in 2007.[109] This upward swing is a direct consequence of the sharp increase in the Selic interest rate from 2012 on.

It should be underscored that the stock of gross public debt in Brazil remains at relatively acceptable levels when seen comparatively (although it is higher than the average for emerging economies[110]): in December 2015, it had reached 66.2 percent of GDP,[111] the equivalent of nearly R$ 4 trillion (US$ 1.03 trillion). Net debt, meanwhile, stood at 36 percent.

A worrisome aspect of Brazil's internal public debt is that it is heavily concentrated in both fixed and floating interest rate securities, especially in Treasury Financial Bills (Letras Financeiras do Tesouro, or LFTs), the return on which tends to outpace the base interest rate. This makes for a peculiar connection between the securities market, monetary policy,

and fiscal policy in Brazil.[112] The Central Bank uses Treasury bonds as an instrument of monetary policy. This way, monetary administration (structurally characterized by extremely high interest rates) cannot be totally independent from the management of the public debt. In defining targets for the base interest rate and operating on the open market with Treasury bonds, the Central Bank affects the public budget, expanding the government's financial expenses as a portion of the whole. The strongest pressure exerted on the public debt comes from the base interest rate, set by the Central Bank. In 2016, Selic-indexed securities once again came to comprise the largest portion of the country's securities debt, standing at 40.4 percent, as compared to other securities indexes (price index, fixed rate or foreign exchange).

This explains why the stock of the internal public debt in Brazil has remained structurally elevated and is nevertheless on the rise (in constant Reais), as seen in Fig. 2.9. In 2015, pressured by a growing primary deficit, the government moved to issue more public securities in the face of a scenario of multiple uncertainties. This pushed up the securities debt on the market for the public sector, which resumed its climb in terms of its share of GDP, rising to 44 percent. With the economy in recession, investors and companies once again prioritized liquidity and ran en masse to government bonds, given their security and their exceptionally high yield.

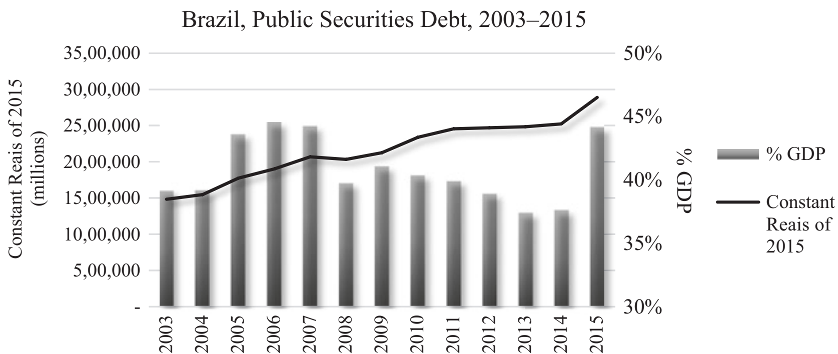


Fig. 2.9 Brazil, public securities debt, 2003–2015 [*Source*: Brazilian Central Bank (BACEN) and IPEADATA. Amount of securities from federal, state, and local governments on the market at the end of the year. Constant prices as of December 2015, indexed by the consumer prices national index (IPCA)]

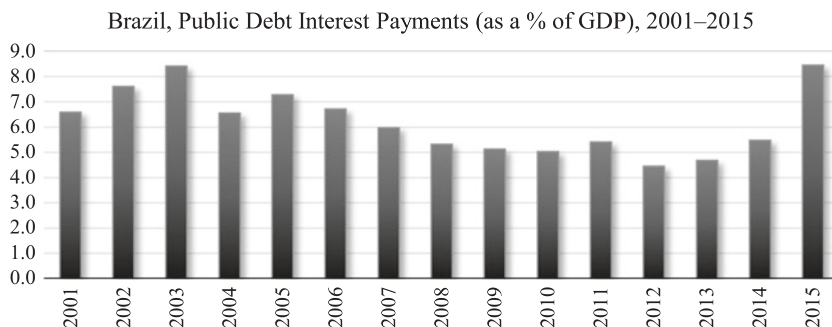


Fig. 2.10 Brazil, public debt interest payments (as a % of GDP), 2001–2015 [*Source*: Bacen. Nominal interest rates paid by central government, regional governments and state companies]

Figure 2.10 illustrates the evolution of public debt interest payments as a proportion of GDP from 2001 to 2015. In 2015, 8.5 percent of GDP was removed from the public budget and put toward interest payments.[113] That percentage only fell slightly below 5 percent for 2012 and 2013. That is to say, in the thick of a severe recession without precedent in recent decades, the creditors of the Brazilian State continue to benefit from a policy that keeps interest rates at unjustifiably high levels, feeding not only the concentration of wealth among the highest of high incomes, but also the appreciation of the exchange rate. This compromises the role of external demand as a driver of development, which might emerge as a possible exit from the ongoing recession. By way of illustration, it might be said that in the same year, 2015, the average interest rate recorded for other developing or emerging countries failed to even come close to the going rate in Brazil (14.25 percent): Argentina 2 percent; Chile 0.6 percent; Mexico 2.3 percent; Russia 0.8 percent; South Africa, 3.1 percent; Turkey 2.8 percent, and India, the highest of this group, at 4.4 percent.[114]

This is the most explicit and perverse manifestation of the financialization of a developing country like Brazil, responsible for reproducing the structural barriers to economic and social development in that it hinders the productive investment that would call for capital tie-up.

As for the Brazilian case, after 1990, which marked the start of the process of financial liberalization in the country (along with a deep process of trade liberalization), investment rates and profit rates, which had once moved in sync for decades now took different paths: while the former

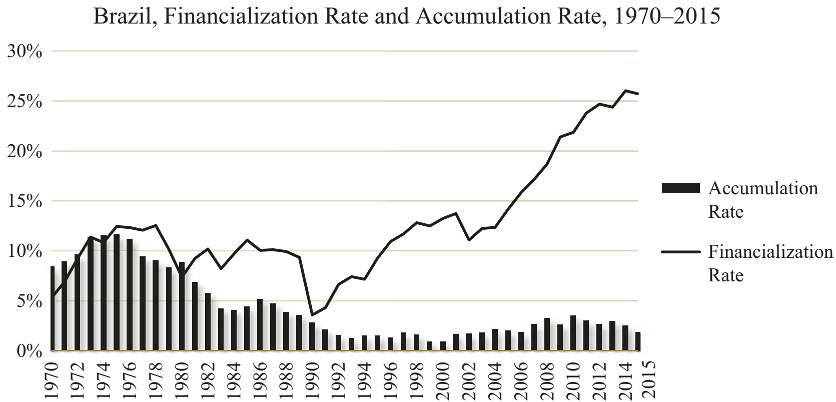


Fig. 2.11 Brazil, financialization rate and accumulation rate, 1970–2015 [*Source*: calculated by Bruno and Caffe, Figure 2 (2015: 51), and updated by Bruno (2016), using data from the Brazilian Central Bank (Bacen). Accumulation rate: growth of productive fixed capital stock. Financialization rate: ratio of total financial assets to productive fixed capital stock]

dropped and recovered very slowly, the latter zoomed upwards, widening the gap between profit and investment rates.

Figure 2.11, drawn from Bruno and Caffé (2015), updates this trend, comparing the trajectories of the accumulation rate and the financialization rate (Annex 3) over 45 years, starting in 1970. During the decade of the "economic miracle" (1970–1980), wrought by the military regime, the financialization rate[115] is quite low, and shows a clear positive correlation with the rate of accumulation of productive fixed capital stock.[116] It should be noted that the positive correlation means that, during this first period, the financial sector still lacked the structural and macroeconomic conditions that would allow it to peel off from directly productive activities. From 1980 to 1990, however, the financialization rate began to take off, thanks to the financial gains derived from high inflation, which led to a swift expansion of the banking sector. Miguel Bruno sees this as the first phase of the financialization of the Brazilian economy—driven, apparently, by inflationary gains.

Under the Collor Plan[117] in 1990, which confiscated 80 percent of the country's financial assets, the financialization rate falls off a cliff. After the reestablishment of monetary liquidity post-1992, it becomes evident that the rate grows completely independently of the rate of productive

accumulation, zooming upward, boosted this time by the sky-high real interest rates that began to put a stranglehold on productive investment and development. Figure 2.11 suggests that, from the start, financialization in Brazil appears to be strongly associated with the declining pace of real accumulation.

As Bruno sees it, this new pattern of financialization is the product of interest income. One should recall that the Selic rate, the country's base interest rate, stood as the highest in the world during this period (1994–2015), strengthening rentier logic to the detriment of productive economic growth. In the author's opinion, this would explain why the rate of growth of the Brazilian economy remained below the average for other emerging countries over the course of the 2000s, hence operating below its potential.

In the era of financialization, social investments, investments in infrastructure, innovation, and technological progress, toward raising labor productivity, which bear potential gains for society as a whole and which call for long-term maturation, tend to be slighted in favor of unproductive uses with towering financial returns, albeit in an extremely unstable context.

Pierre Salama corroborates these analyses and delves into the fragility of Latin American economies since the 1990s, with the economic liberalization of trade and capital markets.[118] One key consequence of this liberalization was that net foreign investments (direct or asset-driven) did not wind up increasing the investment rate. Consequently, they had no impact on gains in productivity or on domestic savings. This *carry trade* contributed instead to the financialization of companies, which now focus their expertise on sectors with higher profitability, such as non-tradables.

With this in mind, we might turn to the contribution from José Carlos Braga, wherein he casts financialization as a systemic pattern of wealth, the impact of which goes far beyond sucking liquidity away from industrial to financial circulation. In his view, it comes to characterize the strategies of all the relevant private agents, with "interest-bearing capital" at its center, "whether it comes from large industrial or commercial corporations, banks, landowners, institutional investors, or personal financial savings."[119] Thus, interest-bearing capital comes to organize not just economic activity, whatever form it may take, but also takes in other aspects of the reproduction of life that had escaped the logic of the market under previous accumulation regimes. Now, the public provision of goods and services is not merely recommodified, but also absorbed into the financial

logic that places interest-bearing capital as the key to accessing well-being and social goods, and which is fed by families' deepening indebtedness.

At present, this process of financial expansion is broadening through recourse to new mechanisms born of finance-led logic**,** which are reshaping behaviors and dynamics of economic agents as a whole and characterizing what Engelbert Stockhammer[120] refers to as a finance-dominated accumulation regime, in a reference to François Chesnais,[121] and which has also been labeled financial neoliberalism by Thomas Palley.[122]

What are the essential features of this process, beyond the stagnation or even the decline of investment expenditures, ebbing as a portion of aggregate demand, and thus indicating that greater profits do not necessarily create more investment?

According to Stockhammer, firstly, household consumption can occasionally become the driving force for growth via access to credit. In recessive phases, this spells greater socio-economic insecurity and instability, as household debt tends to grow quickly relative to disposable income. Consumer borrowing and consumer debt expand, given their intrinsic and paramount place within the financialization process. Secondly, there is an increase of capital flows as a consequence of the deregulation of financial markets, accentuating the volatility of the exchange rate. Thirdly, public spending and revenues tend to remain relatively high and stable, despite shifts in their structure. As an example, Stockhammer refers precisely to how the share of government interest payments has climbed in the context of financialization, as compared to previous economic regimes. Finally, the finance-dominated accumulation regime tends to limit the growth rate in aggregate demand.[123]

All of these elements map neatly onto features of the recent cycle of economic growth in Brazil. To illustrate this, I quote a few figures:

1. Household consumption in Brazil contributed significantly to sustained aggregate demand between 2003 and 2014. It represented 61 percent of GDP over the period, on average, as shown in Table 2.1.
2. A key factor in making household consumption a relevant vector of growth was the explosion of consumer credit, under the umbrella of a strategy to broaden access to the financial system in general. From 2004 onward, credit as a percentage of GDP grew apace, rising from 22 percent of GDP in 2001 to nearly 60 percent in 2015, as highlighted previously. No other economic indicator showed such an

impressive surge. If we compare the growth rate of individual credit to the wage bill (post transfers and taxes), we see that the former saw an annual expansion of 13.8 percent, on average, while the latter grew 5 percent p.a. from 2004 to 2014. Consumer credit, meanwhile, expanded, on average, 11.5 percent p.a.

3. The most immediate consequence was the precipitous rise in the level of household debt. According to the Brazilian Central Bank (BACEN), the degree of disposable household income compromised by financial debts went from 18.4 percent in January 2005 to 46.2 percent in January 2015.[124] As for non-mortgage consumer credit, its share of disposable income went from 17.2 percent at the start of the period to 28.8 percent by the end.[125] A survey from the National Confederation of Commerce (Confederação Nacional do Comércio, or CNC),[126] conducted in December 2015, presents similar conclusions: it estimates that the portion of monthly household disposable income going toward debts to the financial sector (mortgage excluded) has gotten as high as 30.6 percent. One in every five households is in default. However, if we look at household borrowers alone, the debt-to-income ratio had come to an average of 65 percent by the end of 2014. Among households with less than three minimum wages per month, this share amounts to 73 percent.[127]
4. Public spending on interest payments continued at extremely high levels during the same period, whereas the volume of public debt grew on a regular basis (see Fig. 2.9).
5. For many scholars,[128] the financialized profile of the Brazilian economy curtails its growth potential, by stimulating crowding out trends.

Other aspects that go along with the financialization process are the long-standing presence of an overvalued currency, incentivizing cheap imports resulting in trade deficits and manufacturing job losses, among other consequences. Once again, all of these elements may be found in the recent cycle of Brazilian growth, as signaled in the opening sections of this chapter.

It is important to point out that there is a profound difference between the financialization model seen in the United States and the U.K., as well as other trends present in some European countries, and the process

observed in Brazil. In general, salaries either stagnated or fell, leading to a drop in the wage bill as a proportion of GDP and to deepening inequalities in the labor market. The credit market stepped in to compensate for lost income and to keep consumption from contracting. In Brazil, we saw the complete opposite. The process of financialization has come about during a phase of real wage increases and attenuated income disparities.

How to explain this contrast? I believe that we can chalk this up to an attempt to forge a new regime of accumulation that would force down the internal barriers impeding the transition toward a mass consumption society in Brazil. Permanent shortfalls in the expansion of demand for all sorts of services and consumer goods, due to the excess of labor and consequent limitations on rising salaries,[129] hampered the start of a virtuous cycle of growth. This diagnosis was not a new one.[130] It could be traced back to the core of the structuralist tradition,[131] and applied to Brazil as well. The persistence of structural heterogeneity,[132] as seen in the steep gaps in productivity between productive sectors and in the stark concentration of income and wealth, stifled the full development of capitalist relations, feeding underdevelopment. In the last decade of the twentieth century, aware that underdevelopment persisted despite the modernization of Latin American societies, Fernando Fajnzylber[133] called for a new model of industrialization that would promote innovation and improvements in income distribution, enabling market society to take root in a durable way.

This novelty would only catch on in the new millennium, manifest in the design and operationalization of a new catching-up strategy founded on the strengthening and consolidation of ties to the market. The voluntarist approach consisted of incentivizing mass consumption and using it to leverage a new pattern of economic growth[134] based on an unprecedented expansion of the domestic market. How to lend greater diversification and scope to consumption? By extending the consumer market to those who had remained on its margins to broaden and deepen market relations. The Workers' Party, democratically elected and in power at the head of a wide-ranging ruling coalition, had the legitimacy and autonomy to force this transition on the demand side, via an increase in the minimum wage (a "political price"[135])—and broadening safety nets and the distribution of other direct and indirect stimuli, including access to credit.

As we shall see, the strategy of promoting mass consumption revealed itself to be yet another repetition of what Furtado had dubbed "modernization": to wit, a "process of the adoption of sophisticated consumption patterns (both private and public), without the corresponding process

of accumulation of capital and progress in methods of production."[136] That is to say, this 'modernization' not only did not subvert the social and productive structures that constituted underdevelopment but it also reproduced them, despite its unprecedented expansion of the domestic consumer market. The opening of the black box of technological progress—an indispensable step on the way to elevating productivity, as formulated in Fajnzylber's neostructuralist model—would ultimately be delayed. It was bumped from Step One to Outcome. By incentivizing mass consumption and financing consumption[137] through a well-defined spectrum of policies and programs designed to quickly incorporate tens of millions of new consumers into the market, the State would intervene to resuscitate the animal spirits of the national business class and the economic elite. These, in turn, would take on the perennially postponed challenge of investing in innovation and infrastructure.

Globalization and financialization came together to increase the chances that this model would truly take off.

Developmentalisms or "Covenants for Growth"[138]

The advance of financialization and its implications in terms of fomenting household consumption, the expansion of the domestic market and the reconfiguration of the accumulation regime, with consequences in terms of shaping the relationship between economic and social policy—in part through new institutional arrangements that seek to boost the restarting of the economic cycle—have been neglected[139] by certain Brazilian scholars, particularly those who saw the return to growth as the emergence of a unique, Brazil-specific model, which was soon labeled "social-developmentalism."[140] The "social" part refers to the real increase in household income through the rise in the minimum wage, the massive expansion of employment (and formal jobs in particular) and thus of the wage bill, with positive repercussions in terms of reducing poverty and inequality. Social spending, federal spending in particular,[141] was seen as another factor significantly boosting growth. Salaries and the rise in public spending would then comprise the tandem of a markedly inclusive model—which, in stimulating consumption, would use the domestic market to drive development and lead to profound changes in the productive structure.

It is precisely in the attempt to forge a virtuous relationship between consumption, the expansion of the domestic market, investment, and

growth that the developmentalist legacy emerges yet again. It is invoked, however, without an awareness of the sort of linkages that not only globalization, with the opening of markets, but also financialization, with the accentuated rise in credit flows and debt, would bring. Scholars of financialization[142] have pegged the high rates of growth in debt levels among families as one of the most constitutive elements of the new accumulation regime, a dimension that appears to have been given short shrift in the social-developmentalist framework.

It should be emphasized that taking developmentalism as a reference in the attempt to characterize a new phase of economic growth and social progress is hardly groundbreaking, as the term had circulated widely as early as the 1960s in Brazil.[143] Along this trajectory,[144] marked by nuances expressed by qualifying terms (which was the case with the national developmentalism of the Vargas[145] era and subsequent military governments[146]), developmentalism should be understood as a counterpoint, within economic theory, to conventional orthodoxy. We might look to the past for a parallel reaction: a reaction to the failure of economic liberalism, cemented by the economic crisis of 1929, gave rise to the global awakening of national statism.[147]

Ricardo Bielschowsky sees the term developmentalism as defining an "'ideology of the transformation of Brazilian society' rooted in an economic project that privileges industrialization as a way out of poverty and underdevelopment, with the understanding that this exit will not be provided by the spontaneity of market forces: that is to say, the State will be indispensable as a catalyst, as an agent that plans development and/or as a direct investor."[148] Ricardo Carneiro characterizes developmentalism as "a unique interpretation of Brazilian and Latin American development, which became the focal point for a number of economic policies of an interventionist, and hence anti-liberal, nature."[149] Luiz Carlos Bresser-Pereira, meanwhile, expands the concept by affirming that, in addition to being an ideology of economic development, "developmentalism may be understood as a form of the economic and social organization of capitalism (…) and as a strategy to attain it, standing, in these three senses, as an alternative to economic liberalism."[150]

It becomes clear that the structure of developmentalist thought, as inherited from Cepalian theory, is a strain that is heavily peripheral, and national. It calls for the State to take a dominant role in guiding economic policy, characterized by strong interventionism, as evidenced by recourse to planning; commits to strategies of long-term structural transforma-

tion,[151] formulated in the context of a "national project"; insists on the autonomy that is meant to ballast economic growth, an autonomy made visible in its refusal to bow to the dogmas of "center" and "dependency" vis-à-vis developed countries, as well as in the attempt to reduce external vulnerability.

Two contemporary developmentalist currents are sparring for hegemony in their interpretations of the path that the country has taken thus far and the challenges that Brazil has yet to face in attempting to successfully overcome underdevelopment. These are social-developmentalism, as mentioned above, and neodevelopmentalism.

The former, which Pedro Paulo Zahluth Bastos also referred to as "distributive public-sector developmentalism," emphasizes "the domestic market and the role of the State in influencing income distribution and investment allocation,"[152] fomenting a new path of inward-looking industrialization. This model is practically an ex-post construction of the strategy adopted by "Lulism"[153] from 2004 to 2010. Ricardo Carneiro sums up that strategy in four main thrusts: improving income distribution, expanding economic and social infrastructure, reindustrialization via the consolidation of production chains, and growing the natural resources sector. Once in place, these fronts were meant to bring about an autonomous increase in consumer demand. For that strategy to work, the State must enjoy a high degree of discretion when drawing up macroeconomic policy, since "developmentalism is presupposed as a political aim, and not as a spontaneous event born of the market on automatic pilot."[154]

In the neodevelopmentalist model, meanwhile, the focus is not on increasing mass consumption at the domestic level, nor increasing the wage bill, with expected spillovers for investment, innovation, and productivity. Quite the contrary. Luiz Carlos Bresser-Pereira, the architect of neodevelopmentalism, sets himself against not only the orthodox crowd, but also what he calls vulgar Keynesianism, wherein the "preference for immediate consumption determined by economic policy" is revealed as a wrongheaded strategy by virtue of its favoring public and account deficits.[155] According to Luiz Fernando de Paula, neodevelopmentalism "supports the importance of an income policy that keeps wages growing in line with productivity, and an exchange rate policy that counteracts the tendency to currency overvaluation and that has as its target an 'industrial equilibrium exchange rate' – which enables producers of state-of-the-art manufactured goods with the capacity to compete in foreign markets with a fair profit margin."[156] In other words, economic developmentalism

depends on a high investment rate independent of previous savings, but it requires lucrative investment opportunities for businesses, opportunities that may dwindle if the exchange rate remains overvalued and the real interest rate stubbornly high. It would thus fall to the government to ensure a competitive exchange rate that would drive capital accumulation and technological progress.[157] The figure of the entrepreneurial State,[158] which had prevailed in the "old" developmentalism, would cede the stage to private capital.

Another key distinction between social- and neodevelopmentalism lies in the opposition between wage-led and export-led regimes. On this score, given its move to stimulate mass consumption by raising salaries, privileging the expansion of domestic demand, social-developmentalism would tend toward a strategy of wage-led growth, while neodevelopmentalism would fall closer to an export-led growth strategy. In this model, competitiveness strengthened by a depreciated currency would guarantee insertion into the international market and put pressure on domestic industry to innovate and seek out productivity gains, once exposed to severe competition. Once a growth rate had been reached that might quickly promote the nation's catching up, there would come a transition to a balanced strategy with wages growing at the same rate as productivity and investments boosted by satisfactory returns. The exchange rate is thus a watershed between these two currents; for one, depreciation means an increase in competitiveness, while for the other, it signifies a loss in purchasing power for wages.

Though they rest on clearly differentiated strategies, social-developmentalism and neodevelopmentalism are both heterodox policy-oriented frameworks which aim to reinforce the positive and strong relationship between income distribution and economic growth, seeking to promote a successful State-led catching-up strategy toward overcoming underdevelopment.

We know that in most countries, demand tends to be driven at the domestic level by wage-led regimes.[159] We also know that wage-led growth is an equitable strategy in which "wage growth can support demand via consumption expenditures and it can also induce higher productivity growth."[160] In the Brazilian case, however, despite the focus on internal market and increasing wage share, the recent expansionary phase did not lead to substantive increases in labor productivity—quite the contrary. Thus the wage-led growth strategy applied here has proven inconsistent with positive or sustainable developments on the supply side.

The Brazilian National Confederation of Industry (Confederação Nacional da Indústria, or CNI), reports that from 2002 to 2012, labor productivity in Brazil rose at an annual average of 0.6 percent.[161] This performance falls far below estimates made by Fernanda De Negri and Luiz Ricardo Cavalcanti, who had seen labor productivity keep up a trajectory of stable, albeit slight growth over the 1990s and 2000s, on the order of 1 percent p.a. According to these authors, industry productivity even saw a negative annual rate of growth (−0.4 percent) over the 2000s, as did the service sector (−0.6 percent). Indeed, from 2001 onwards, labor productivity began growing at a rate below that of GDP per capita. It may be deduced from this that the wage-led strategy, as it was carried out in Brazil, lacked one key long-term dimension—it failed to solve the decades-long structural problem in the economy that was mediocre productivity. Demand and productivity effects thus have exhibited vastly different outcomes.

Stockhammer underscores the fact that in a wage-led regime, the increase in aggregate demand may stem from either a rise in the wage bill or from two other exogenous factors—growing family debt, helping to boost a consumption boom, or growing export surpluses. However, as he points out, both patterns are unsustainable in the long term.[162]

We have seen that in a Brazil on the path to redeeming its past of profound social debts and relative economic backwardness, exports slowly lost strength as a part of aggregate demand (Table 2.1), heading toward an accentuated reprimarization of the export line, although the balance of trade only registered a deficit in 2014. Incentives toward the expansion of the domestic consumer market via tax breaks on certain durables, an overvalued currency, a rise in the real average wage, and, above all, an increase in the State-regulated minimum wage—all this in tandem with a vigorous expansion of credit paved the way for the transition to a mass consumer market.

Significantly, the growth strategy adopted also led to rapid, growing indebtedness—which, in a recessive situation like the one at hand, can hamper the resumption of economic activity, standing as a barrier to the expansion of household consumption and thus stifling aggregate demand, as well as gravely threatening families' well-being in that it makes them more vulnerable to and increasingly dependent on the financial system.

While a strategy of growth with indebtedness comes alongside a reduction in wage dispersion and a rise in average income, amidst a convincing bout of growth, it undeniably triumphed in promoting a regime of

accumulation that was more equitable, dynamic, and relatively stable in the long term. But in a regime of accumulation where the average interest rates are exorbitant—among the highest in the world—and where the financialization process is strengthening securitization via the introduction of a series of financial innovations, regardless of the phase of the economic cycle, the consequences can be disastrous for individuals and households and for the long-term sustainability of economic activity.

Lavoie defines securitization as financial institutions' ability to transform loans into securities that can be negotiated on financial markets.[163] Loans are thus sold to other investors, often at a discount, so that the original financial institution can immediately recover its investment instead of waiting to collect on the debt. Moreover, these "toxic" loans also become assets and are resold on capital markets. In other words, debts are traded by their financial institutions of origin which, in converting a broad variety of income streams (educational credit, mortgages, loans toward the acquisition of cars or any other financed good, consigned credit, etc.) into liquidity,[164] will expand their ability to refinance new loans, thus broadening and deepening the process of the financialization of society. This, of course, has a considerable impact on the lives of families, placing them at no small risk.

In the succinct terms of Frances Thomson and Sahil Dutta, "securitisation is the transformation of streams of future income into a financial security ready to sell straightaway."[165] Since their creation, back in the 1960s and 1970s,[166] these operations have implied bundling up large quantities of loans in packages as a way to cut down on the risk of default. Gillian Tett reminds us that this bundling approach is attractive in that it offers investors varying degrees of risk and return ("tranches"). In this context, any stream of income—pensions, assistance benefits, salaries, and others, as long as they guarantee regular payments—might serve as collateral for access to the financial market. In turn, they would then become securities, albeit indirectly, through their partial ties to loans. Debt thus becomes a renewed source of income for families, not just to finance commodity consumption, but also to fund "opportunities" like higher education or services such as private health insurance.

Brazil is a current-day illustration of how the social protection system, by way of the collateralization of social benefits and social policy itself come to be a part of the logic of financialization. They are absorbed into a complex, dense web that stretches from the simplest

elements, like access to a line of credit, to people's subjection to mechanisms of deepening indebtedness, to say nothing of the sophisticated private insurance market, where private plans guarantee access to rights that ought to be universal, free, and unconditional, such as healthcare and education.

Wage and employment policy have played an undeniable role in fueling the recent growth cycle in Brazil's economy. Both contributed to broadening the wage bill as a portion of national income, which rose from 38.5 percent in 2003 to 43.4 percent in 2013.[167] However, it is less clear how redistribution and growth were integrated at the level of secondary distribution—that is to say, in terms of tax and fiscal policy and the social protection system per se, both pillars of any regime of accumulation that seeks to ensure economic stability and expectations in terms of the maintenance of potential growth. As Rubén Lo Vuolo warns, "at the point at which one conceives of social protection institutions compatible with the stability of a regime of accumulation with progressive tendencies in the distribution of revenue, one cannot fall back on an activism that refers everything to a 'virtuous cycle' of growth and employment."[168]

In the definition provided by Lavoie and Stockhammer, "distributional policies that are likely to increase the wage share and reduce wage dispersion include increasing or establishing minimum wages, strengthening social security systems, improving union legislation and increasing the reach of collective bargaining arrangements."[169] But, they add, "only when wages grow with productivity growth will consumption expenditures grow without rising debt levels." Now, the sui generis facet of the Brazilian case—which is rarely emphasized in the debate among developmentalists *de tous bords*—is that along with the substantial increase in both personal and functional income distribution, strengthening the understanding that policies adopted under the Workers' Party were markedly pro-labor, Brazilian households became substantially more indebted, reaching unprecedented levels of debt. And this despite the fact that the average increase in earned income far exceeded the average rate of growth for productivity.[170]

This characteristic of the recent pattern of growth was not enough to shake the foundations of a productive and social structure still shaped by extreme heterogeneity. Neither the increase in the percentage of formal jobs nor reduced wage gaps constituted progress in the direction of overcoming this state of affairs.

If economic policy has been key to advance financialization, social policy was not far behind. The following chapters seek to show how social policy and the social protection system are subsumed in this new covenant for growth by the ongoing financialization process, and its subsequent repercussions. One of them in particular reflects the contradiction that the growing risks inherent to the advance of financialization led to the endless search for new financial products, which, it is hoped, might serve as effective protection against the socio-economic insecurity that financialization itself only deepens. This lends support to the idea that financial markets, through private insurance and portfolio management, may prevent poverty, protect against uncertainties, and provide social goods and solid risk-aversion strategies.

In what follows, I examine the relationship between social policy and financial markets. I argue that the social-developmentalist state was crucial in deepening the process of financialization, especially via the recommodification of services that were once publicly provided within the Brazilian welfare regime.

Notes

1. International reserves reached elevated, unprecedented levels in Brazil, up to US$ 368.8 billion by the end of 2015.
2. IBGE, IPCA—Broad Consumer Price Index, average for 2015.
3. Unemployment rate measured by the IBGE's PME, or Monthly Employment Survey, for six major metropolitan regions.
4. IBGE, PNAD Contínua, December 2015.
5. Ministério do Trabalho, CAGED 2016.
6. IBGE, System of National Accounts, 2016.
7. IBGE, Síntese dos Indicadores Sociais, 2015, 74; 2012.
8. IBGE, PNAD Contínua, 2016.
9. BACEN, Time Series Database 2016.
10. Primary spending includes all government spending except interest payments.
11. Morais and Saad-Filho, "Da Economia Política à Política Econômica," 525.
12. Lavinas, "A Financeirização do Social."
13. These figures are preliminary estimates from the National Treasury Secretariat (Secretaria do Tesouro Nacional, or STN)

and refer to spending at the three levels of government. They may be inflated through double counting, and thus should be approached with care. Consolidated data are still not available for this period, with the exception of social spending from the federal government alone, which went from 12.12percent to 14.48 percent of GDP between 2003 and 2014, comprising the largest portion of spending.

14. Oreiro, "Economia Brasileira: o Futuro Depende da Reindustrialização."
15. Authors such as Pinto et al. estimate that during President Lula's second administration the rules shaping the tripod were loosened somewhat in the wake of the effects of the international crisis of 2008, leading to a rise in public spending and credit availability.
16. Here, we refer to the total amount spent on social insurance (the regular public pension system, other contributory benefits, and unemployment benefits), which came to R$ 484.1billion in 2015. ANFIP, 2016.
17. BACEN, Time Series Database 2015.
18. ANEFAC 2016.
19. According to the IBGE (Índice Mensal do Comércio Varejista), all retail activities saw a decline. Furniture and household appliances are a particularly emblematic case, marking a drop of 24.3 percent—the worst since records began in 2001.
20. IBGE, System of National Accounts 2016.
21. *Valor Econômico*, "Lucro dos Bancos Resiste Mais à Crise."
22. Ibid.
23. Profitability was measured by the rate of net equity, or ROE (Return on Equity).
24. By order of importance in 2015: Itaú; Bradesco; Santander, Caixa Econômica Federal, and Banco do Brasil (the latter two being public banks).
25. Defined by Krippner as revenues derived from interest payments, dividends, and capital gains or investments (33).
26. Gini estimated from average earnings from all jobs held by people 15 years or older (PNAD, IBGE 2015). This is considering only gross declared household income, post-transfers.
27. From 1968 to 73, Brazil's GDP grew at a yearly average of 11.1 percent. "One notable characteristic of the 'miracle' is that, along-

side extremely high economic growth rates, the period of 1968–1973 was marked by inflation rates that were both declining and relatively low, by Brazilian standards, and by balance of payments surpluses." Veloso, Villela, and Giambiagi, "Determinantes do 'milagre' econômico brasileiro," 222.

28. IBGE, PNAD, various years.
29. IPEADATA Social.
30. A monthly household survey carried out on a restricted array of job market indicators at the national level; and quarterly for a broader range of indicators, broken down into other territorial frameworks. Every quarter, 211,344 permanent private residences are consulted from 16,000 census sectors, distributed across around 3500 municipalities.
31. In this study, the researchers examined three strata of wealth at the top of the distribution: the richest 0.1 percent, 1 percent, and 5 percent.
32. Medeiros et al., "O Topo da Distribuição de Renda no Brasil," 26–7.
33. IBGE, PNAD various years.
34. Bielschowsky and Mussi, "Padrões de desenvolvimento na economia brasileira," 146.
35. Rocha, *Pobreza no Brasil*.
36. Bertola and Ocampo, *The Economic Development of Latin America Since Independence*.
37. Neri, *A Nova Classe Média*.
38. Bielschowsky and Mussi, "Padrões de desenvolvimento na economia brasileira," 163.
39. Bresser-Pereira, *A Construção Política do Brasil*, 18.
40. Palley, *Financialization*, 6.
41. See Table 2.1 in this chapter.
42. Lavinas, Cordilha, and Cruz, "Assimetrias de Gênero no Mercado de Trabalho Brasileiro."
43. Atkinson, *Inequality: What Can Be Done?;* Stiglitz, "A Nobel Laureate Reflects"; Lavoie and Stockhammer, "Wage-led Growth: concept, theories and policies," to cite a few.
44. "Is More Equality Possible in Latin America?," 30.
45. The Brazilian minimum wage dates back to 1938, under the Vargas government. It was lauded for introducing working regu-

lations and strengthening social security for certain categories of workers, particularly urban workers and civil servants.

46. Saboia, "Salário Mínimo e Distribuição de Renda no Brasil"; Lavinas, "21st Century Welfare."
47. Neri, Gonzaga, and Camargo, "Salário Mínimo 'Efeito Farol' e Pobreza."
48. Lucio, Figueiredo, and Melo, "A política de valorização do salário mínimo."
49. Values deflated by the INPC (National Consumer Price Index) for September 2014.
50. Brito, Foguel and Kerstenetzky, "Afinal, qual a contribuição da política de valorização do salário mínimo para a queda da desigualdade no Brasil?" 25.
51. Koop, "Country's official minimum wage ranks high in region."
52. Lavinas, Cordilha, and Cruz, "Assimetrias de Gênero no Mercado de Trabalho Brasileiro."
53. As underlined by Ruy Braga, "Terra em Transe," 60, in the 1990s, in the thick of a restructuring of the labor market that led to a significant increase in the proportion of flexible and precarious occupations, the majority of formal jobs then created (i) earned between three and five minimum wages, and (ii) were located in the industrial sector. This pattern differed radically from that which had prevailed in the 2000s, with job creation predominating in the service sector and the vast majority earning below two minimum wages.
54. IBGE, Síntese de Indicadores Sociais 2015 and 2013.
55. The 88 Constitution is called the Citizen Constitution for having been drafted during the transition toward a non-military regime. General elections for the presidency took place for the first time only in 1989.
56. This includes both the poor and the indigent. In 2014, the poverty line stood at R$ 154 and the indigence line at R$ 77, or the equivalent of a per capita household income of US$ 62.80 and US$ 31.40, respectively (figures calculated in September of 2014). This monetary income is post-transfer, pre-tax. It should be said that there is no official poverty line in Brazil; rather, several are used, depending on the type and aim of the program at hand.

57. Post-transfer declared income as reported by PNAD, the Brazilian National Household Survey, carried out by IBGE.
58. The rate went from 2.4 children per woman age 14–49 in 2000 to 1.7 children in 2014, well below the population replacement rate (IBGE, Projeção da População do Brasil).
59. Townsend, *The Peter Townsend Reader*. According to Townsend, "individuals and families whose resources, over time, fall seriously short of the resources commanded by the average individual or family in the community in which they live, whether that community is a local, national or international one, are in poverty" (168).
60. Adjusted for inflation by the INPC index.
61. UNCTAD, Commodity Prices Database 2015.
62. Gentil and Araújo, "Desempenho econômico do Brasil no período pós-2011," 3.
63. Bresser-Pereira, *A Construção Política do Brasil*; Oreiro and Feijó, "Desindustrialização: conceituação, causas, efeitos e o caso brasileiro"; Cano, "(Des)industrialização e (Sub)desenvolvimento."
64. IBGE. System of National Accounts. It should be said that from the mid-1970s to the early 1990s (the latter marking the start of an indiscriminate trade opening under the Collor administration), the manufacturing industry's percentage of GDP was always above 30 percent. Another unsettling indicator has to do with the weight of the manufacturing sector as a portion of employment, which sank from 13.7 percent in 2003 to 12.4 percent in 2014.
65. Medeiros, *Inserção Externa, Crescimento e Padrões de Consumo na Economia Brasileira*.
66. Lavinas, "Brasil 2000: mais consumo, pouca redistribuição."
67. MDIC Time Series Database, 2016.
68. Gentil and Araújo, "Desempenho econômico do Brasil no período pós-2011"; Mattos, "A tragédia da desindustrialização do Brasil"; Belluzzo and Almeida, "Como Recuperar o Vigor Industrial."
69. Hermann, *Financial Structure and Financing Models*, 83.
70. cf. Hermann, *Financial Structure and Financing Models,* and "Liberalização e Desenvolvimento Financeiro."
71. Hermann, "Liberalização e Desenvolvimento Financeiro," 259.

72. From 1964 to 1993, inflationary gains stood as the most significant factor in the expansion of the financial sector in Brazil. “The swift and sharp reduction in inflation, and hence in inflationary gains, in the post-Real period, amidst an environment of financial liberalization and global markets, set off a process of structural change in Brazil’s banking and financial system.” Bruno et al., “Finance-led growth regime no Brasil,” 740.
73. Hermann, “Liberalização e Desenvolvimento Financeiro,” 265–6.
74. Lavinas, “A financeirização da política social: o caso brasileiro.”
75. Credit instruments to individual consumers include: overdraft banking services, consigned credit, non-consigned credit, auto loans, credit cards, credit discounts and miscellaneous “open credit” (BACEN).
76. Last data released by the System of National Accounts at IBGE.
77. The new data series for credit allocated by the Brazilian Central Bank (BACEN) began only in March of 2007.
78. Borça Júnior and Guimarães, “Impacto do Ciclo Expansivo do Crédito à Pessoa Física no Desempenho da Economia Brasileira,” 128.
79. 2.2 p.p. of an average rise of 4.9 percent p.a.
80. 1.3 p.p. of an average rise of 3.9 percent p.a.
81. Lavinas, “A financeirização da política social: o caso brasileiro”; “‘Modelo Social’ em Crise”; “Brasil 2000: mais consumo, pouca redistribuição.”
82. One might recall the fundamental role played by the exchange rate in the expansion of the domestic consumption of an array of durable goods. As Carlos Medeiros puts it, “the growth rate for imported consumption, of 13.9 percent p.a., was extraordinarily higher than the rate of 3.7 percent seen for annual average domestic consumption from 2003 to 2007” (119).
83. This does not take credit card debts into consideration, for instance.
84. Medeiros, *Inserção Externa, Crescimento e Padrões de Consumo na Economia Brasileira*.
85. I have run other models, including a variety of variables such as monthly interest rates, among others, but the results were not significant.

86. The data were drawn from the Brazilian Central Bank time series database, calculated on a monthly basis, except for the default rates (*logdefault*), taken from the Serasa Experian database, and for the retail sales (*logretailsales*), an index provided by IBGE. The variable linked to credit issuing (*lognewloans*) refers to new credit transactions; Expanded household income (*logwbe*) takes into account household earnings post-transfers and post-taxes; and, lastly, the exchange-rate variable (*logexchange*) reflects how Brazilian Reais behaved against the US dollar.
87. The root and cointegration tests confirm this, and may be requested from the author.
88. Time series books explain that a stochastic tendency may be removed by differentiating the series so that the resulting stationary series may be used in first-difference estimation models. However, it is also recognized that this may not be the best way to approach non-stationary series in a multivariate context, as the linear combination of integrated series may be stationary, or cointegrated. Many economic models display this cointegration relationship, as identified in the estimated equation. As for short- and long-term adjustments, they might have been presented here. However, according to James D. Hamilton, if the model's series have these characteristics, the least squares method continues to be a super consistent estimator. For a formal demonstration, see Hamilton, Time Series Analysis, 587. Here, the attempt has been to test given assumptions and identify how the variables did correlate in the period under scrutiny.
89. One sees that the individual null hypothesis may be rejected for each of the coefficients with a significance level of less than 5 percent. The F-test, meanwhile, which tests the joint hypothesis of the coefficients, producing a result equal to zero, has its null hypothesis rejected with a significance of 1 percent. R^2, which is a synthetic measure of how well the regression line for the sample fits the data, at 0.97, indicates that 97 percent of the dependent variable may be explained by the explanatory variables of the model. The Durbin-Watson test, at 1.58, also indicates the rejection of the existence of serial autocorrelation in the model. It should be noted that the model was also corrected for heteroscedasticity.

90. Variable drawn from the SERASA database. In this case, default rates are measured considering households with non-repayment debts to financial institutions, credit cards, and non-financial companies.
91. My thanks to Miguel Bruno for exchanging views with me on this model and its possible interpretations.
92. Understood here, in Boyer's terms, as the "set of regularities that ensure the general and relatively coherent progress of capital accumulation, that is, which allow the resolution or postponement of the distortions and disequilibria to which the process continually gives rise" (Boyer and Saillard, 334).
93. Julliard, "Régimes d'Accumulation," 229.
94. See Palley, *Financialization,* 23.
95. See Palley, *Financialization*, 22.
96. Simplified bank accounts are special individual deposit accounts designed for low-income clients. They may be either checking or savings accounts; some of the normal identification requirements for new clients are relaxed, but the transfer limits are tight (maximum monthly balance of R$ 3000.00, or US$ 750 as of December 2015). The accounts have no fee attached, and allow up to four withdrawals and four deposits per month. Currently, the number of active simplified user accounts is estimated at 8.5 million (BACEN 2015, 67), of a total of approximately 150 million bank accounts.
97. BACEN, Time Series Database 2016.
98. KPMG, Situação Atual e Pespectivas do Mercado de Distribuição de Seguros no Brasil.
99. Shiller, *The New Financial Order*.
100. Agência Nacional de Saúde (ANS), Time Series Database 2016.
101. Ibid.
102. ANBIMA, Time Series Database 2016.
103. Castellano, *Brasil: Proteção Social pelo Endividamento?*, apud FNDC/MEC.
104. Ribeiro, "Com restrições do Fies, crédito privado conquista espaço."
105. Van der Zwan, "Making Sense of Financialization," 102.
106. IBGE, System of National Accounts 2016.
107. Palley and Guttmann are among those who emphasize the recurrent underestimation of the GDP share of the FIRE sector—a

phenomenon evidently not specific to Brazil, but rather intrinsic to finance's newfound dominance.

108. This management model, which has been in place since the 1960s, gradually indexed the public debt to all the volatile market variables (inflation, exchange, and interest rates). According to Bruno et al., between 1964 and 1993, however, a period of predominantly high inflation, inflationary gains were the strongest factor contributing to financial expansion. In the 2000s, meanwhile, the authors point to the emergence of a new monetary-financial regime, corresponding to a new pattern of financialization—this one fed by interest income, as well as by other forms of interest-bearing capital.
109. STN, Time Series Database 2016.
110. The Brazilian public debt surpasses the average for emerging economies, according to *Valor Econômico*, "Gasto do governo com juros quase dobra em um ano e chega a R$ 540 bilhões."
111. BACEN, Time Series Database 2016.
112. Amaral and Oreiro, "A Relação entre o Mercado de Dívida Pública a Política Monetária no Brasil"; Lobo, "Gestão da Dívida Pública e Política Econômica."
113. STN, Time Series Database 2016.
114. *Valor Econômico*, "Gasto do governo com juros quase dobra em um ano e chega a R$ 540 bilhões."
115. The financialization rate is calculated as the ratio between the total stock of non-monetary financial assets (FA) and the total stock of fixed productive capital—machinery, equipment, installations, and infrastructure ((K) = FA/K), both in constant Brazilian Reais. Data for financial assets refer to real money balances, always in reference to the last month of the year (December). For further details, see Annex 3.
116. The accumulation rate is defined as the ratio between gross fixed capital formation and the total stock of fixed productive capital (machinery, equipment, installations, and infrastructure), both in constant Brazilian Reais, using data from December of each year. For further details see Annex 3.
117. The Collor Plan refers to the stabilization plan adopted by President Fernando Collor de Mello (1990–1992) during his short term in office. The plan consisted of freezing wages and prices in an effort to curb inflation. Most importantly, the gov-

ernment also confiscated 80 percent of all banking assets, including savings, for 18 months, alongside other fiscal and monetary measures. This plan, the scope of which was totally unexpected, caught Brazilians off guard and ultimately failed to stop inflation. But it promoted a radical process of trade liberalization.

118. Salama, *Les Economies Emergentes Latino-Américaines.*
119. "Interest on money should be strictly understood as the supreme manifestation of capital as pure property, as a fully fledged ware, as a strategic asset peculiar to a monetary economy, generated by companies whose ultimate aim is not the exchange of merchandise for merchandise, but rather the circuit of money-merchandise-more money." Braga, "Qual conceito de financeirização compreende o capitalismo contemporâneo?," 6.
120. Stockhammer, "Some Stylized Facts on the Finance-Dominated Accumulation Regime."
121. Chesnais, *The Globalization of Capital.* In French, *régime d'accummulation à dominante financière.*
122. Palley, *Financialization.* The controversy over the most appropriate label—financialization, finance-led capitalism or finance-dominated accumulation regime—is somewhat beyond the scope of this book. Here, the recent period of economic growth in Brazil is characterized as one dominated by the logic of finance or subject to the process of financialization.
123. Stockhammer, "Some Stylized Facts on the Finance-Dominated Accumulation Regime."
124. BACEN, Time Series Database, 2016.
125. Lavinas, "A financeirização da política social: o caso brasileiro."
126. PEIC—2015 Survey on Consumer Indebtedness and Default, CNC.
127. BACEN, "Relatório de Inclusão Financeira" 2014.
128. Bruno "Financiarisation et Accumulation du Capital Productif au Brésil" 2007; Braga, "Qual conceito de financeirização compreende o capitalismo contemporâneo?"
129. Rodriguez, *O Estruturalismo Latino-americano.*
130. For an in-depth analysis of this topic, see Lavinas and Simões 2015.
131. Prebisch, "O desenvolvimento econômico da América Latina e alguns de seus principais problemas"; Furtado, "Subdesenvolvimento e Dependência."

132. Pinto, "Natureza e Implicações da 'Heterogeneidade Estrutural' da América Latina."
133. Fajnzylber, "Industrialização na América Latina."
134. Bielschowsky, "Estratégia de desenvolvimento e as três frentes de expansão no Brasil."
135. Tavares, Prefácio, *Inserção Externa*.
136. Furtado, "Subdesenvolvimento e Dependência," 182.
137. Pinto had already called attention to how the "financing of consumption in our countries" had become as important as "the financing of investment" (if not more so, in our countries). "Natureza e Implicações da 'Heterogeneidade Estrutural' da América Latina," 584.
138. In 1993, prominent economist Antonio Barros de Castro coined the term to designate a large consensus among the Brazilian society, in place between 1930 and 1980, in support of the country's industrialization and, as a consequence, overall modernization.
139. According to Palley, the "consumer financialization model" has also been largely disregarded by the post-Keynesian school of thought.
140. Bielschowsky, "Estratégia de desenvolvimento e as três frentes de expansão no Brasil"; Bastos, "A Economia Política do Novo-Desenvolvimentismo e do Social Desenvolvimentismo"; Carneiro, "Velhos e Novos Desenvolvimentismos."
141. See footnote 5 in this chapter.
142. Epstein, *Financialization and the World Economy*; Palley, *Financialization*; Sawyer, "What is Financialization?"; Fine, "Towards a Material Culture of Financialization"; Stockhammer, "Some Stylized Facts on the Finance-Dominated Accumulation Regime."
143. Bresser-Pereira, *A Construção Política do Brasil*, 132.
144. For an in-depth reading of the origins of developmentalism as an intellectual phenomenon and as a way of naming practices in economic policy, see Fonseca, "Desenvolvimentismo."
145. Getúlio Vargas, undoubtedly the most prominent Brazilian politician of all time, played a central role in building Brazil as a modern industrial country. He led the 1930 Revolution that overthrew the oligarchical rule of the Old Republic. From 1930 to 1945,

Vargas set up a populist and authoritarian regime, governing largely without Congress. Paradoxically, during the years of the Estado Novo (New State, 1937–1945), he introduced institutional innovations such as a more centralized and enlarged tax system; a labor code, regulating labor relations in Brazil for the first time; social insurance norms, guaranteeing some benefits for formal urban workers and civil servants; and the minimum wage, among many others. Most of these accomplishments still stand as the bare bones of the current social security system in Brazil. Moreover, under Vargas, women obtained the right to vote, the electorate increased, and educational reforms provided somewhat improved access to public education for the masses. His major achievement was to launch a national program to industrialize the country, along with the creation of Brazil's massive oil company, Petrobrás, still a state enterprise. Overthrown by a coup d'état in 1945, he was democratically elected president in 1950. Under mounting pressure from opponents who resisted the ultranationalist outlook of his government, Vargas committed suicide on what seemed to be the verge of his ouster (1954). His legacy, nevertheless, continues to be cherished and valued.

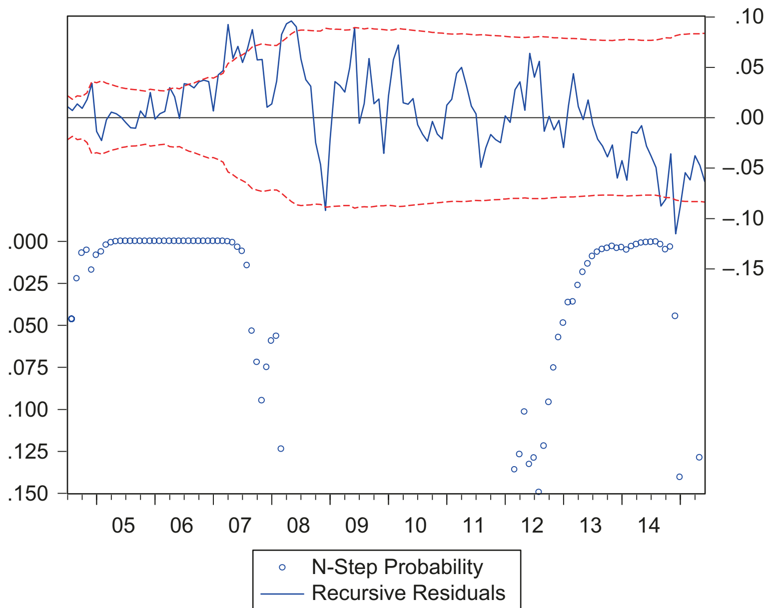
146. Ferreira believes that even under Juscelino Kubitschek, who kicked off the internationalization of the postwar Brazilian economy, a clear national-developmentalist focus prevailed.
147. Ferreira defines national statism as "a strong State that intervenes in the economy and in labor relations, encouraging industrialization and promoting the national culture," this being a fairly common arrangement in the postwar period. "Os conceitos e os seus lugares," 309.
148. Mollo and Fonseca, "Desenvolvimentismo e Novo-Desenvolvimentismo," 223–4.
149. Carneiro, "Velhos e Novos Desenvolvimentismos," 750.
150. Bresser-Pereira, *A Construção Política do Brasil*, 27.
151. Rodríguez, *O Estruturalismo Latino-americano.*
152. Bastos, "A Economia Política do Novo-Desenvolvimentismo e do Social Desenvolvimentismo," 794.
153. Singer, *Os Sentidos do Lulismo.*
154. Rossi, "Regime Macroeconômico e o Projeto Social-Desenvolvimentista," 199.

155. Bresser-Pereira, *A Construção Política do Brasil*, 394.
156. Paula, "Structuralism."
157. Oreiro, "É o Novo-Desenvolvimentismo?"
158. Paula, "Repensando o Desenvolvimentismo," 50.
159. Lavoie, "Crise Financeira, Distribuição de Renda e Reflação pelos Salários"; Onaran and Galanis, "Is Aggregate Demand Wage-Led or Profit-Led?"; Lavoie and Stockhammer, "Wage-led Growth: concept, theories and policies."
160. Stockhammer, "Wage-led growth."
161. Flores, "Produtividade brasileira é a que menos cresce em relação a 11 países."
162. Stockhammer, "Wage-led Growth."
163. Lavoie, "Crise Financeira, Distribuição de Renda e Reflação pelos Salários."
164. Hence the denomination of the "liquid market" in credit derivatives. Tett, *Fool's Gold,* 51.
165. Thomson and Dutta, "Financialisation, a primer," 15.
166. Tett, *Fool's Gold*.
167. IBGE, System of National Accounts, 2015.
168. Lo Vuolo, "Distribución y Crecimiento," 233.
169. Lavoie and Stockhammer, "Wage-led Growth: concept, theories and policies," 25.
170. Ferrari and Paula, "Padrões de Crescimento e Desenvolvimentismo"; Medeiros, *Inserção Externa, Crescimento e Padrões de Consumo na Economia Brasileira*.

Annex 1

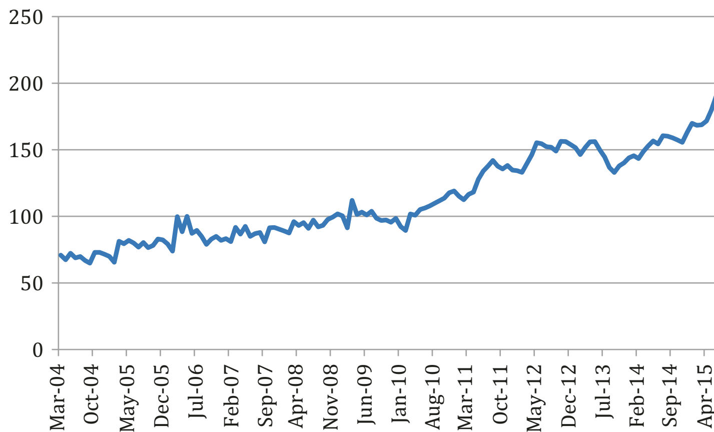
Structural Break Test

The one-step forecast test helps to detect periods in which the estimated equation is "less successful." The vertical axis on the right reproduces the recursive residuals and standard errors displayed by the recursive residual option. The vertical axis to the left shows the probability values for the sample points at which the hypothesis of stability for the parameters would be rejected at levels of 5, 10, or 15 percent. The points with p-values below 0.05 correspond to the points at which recursive residuals fall outside the limit of standard error.



Graph—Structural break test

Annex 2



Behavior of general default rates (2004–2015) (100 = April 2010) (*Source*: SERASA 2016)

Annex 3

The financialization rate (FR) has been defined as the ratio between the total stock of non-monetary financial assets (FA) and the total stock of fixed productive capital (K). FR = FA/K

1. Economic interpretation
   The growth of the FA/K ratio shows the speed at which fixed productive assets are replaced by financial assets, in keeping with studies on processes of financialization in contemporary economies. It may also be read as expressing the substitution of productive savings (earmarked for gross fixed capital formation) with financial savings (unproductive, as they are applied to transfers of ownership of existing assets without creating new assets)
2. Laying out the variables that make up the financialization rate
   FA is calculated by obtaining the difference between the money supply (M4) and mode of payment (M), as provided by the Brazilian Central Bank, to arrive at the stock of non-monetary financial assets.

   K was obtained through a perpetual inventory system that allows for the accumulation of the gross fixed capital formation flows drawn up by the IBGE, so as to approximate Brazil's fixed capital stock. Since this variable includes residential constructions, the calculation only considers the value corresponding to the volume of machinery, equipment, and infrastructure (non-residential constructions), which refers to the fixed productive capital stock. The series for the period 1970–1998 were obtained from Marquetti (2003), and those from 1999 onwards came from IPEA DATA. They were later compared to the official series put out by the IBGE in the publication "Estatísticas do Século XX." The sources were evidently compatible in that stochastic properties were quite similar with only varying levels.

   Both variables are taken at constant prices, deflating FA via FGV's IGP-DI and K with the respective gross fixed capital formation deflators.

   M4 − M1 = special remunerated deposits + savings deposits + securities issued by depository institutions + fixed-income fund quotas + repo operations registered in the Selic system + high-liquidity bonds

The most important element of this definition is that it captures the weight of the domestic public debt within the process of the financialization of the Brazilian economy, as it includes fixed-income funds and bonds.

Of course, other definitions might be used to include other sorts of financial assets. Even so, the expansion of this series from 1995 to 2015 is indicative of a surprisingly strong positive correlation with the growth of the domestic public debt and the official Selic interest rate, while the growth of the fixed productive capital stock (K) remained negligible over the period, and hence incompatible with the country's socio-economic development needs.

CHAPTER 3

Financial Inclusion in the New Covenant for Growth

Financial Inclusion, Fueling the Emergence of the "New Middle Classes"

Göran Therborn[1] has cast the twenty-first century as that of the middle classes, just as the twentieth century belonged to the working classes. With that in mind, I might shift the parallel slightly to create a contrast between the two eras as the "century of the right to citizenship" and the "century of the right to (mass) consumption," albeit with the awareness that by the final quarter of the past century, the "pervasiveness of consumerism"[2] had already begun to herald the start of a new age.

In his definition of the middle class—which has now become a point of endless reflection in the developing world as well—Therborn puts forth income, discretionary consumption, and individual aspiration as identifying markers[3] of a new class that is straightforward about its desires for "boundless consumption," but "situational" in its political attitudes.[4]

In this sense, the relationship between middle classes, consumption, and democracy has been cast as paradigmatic.[5] This triangulation implies the categorization of the middle classes as drivers of both economic development (in that they push for product differentiation) and political change[6] (in that they back progressive agendas), lending their growth an extremely positive, necessary connotation. This book will refrain from delving into this vast and controversial debate, where the group's essential diversity stands alongside a throng of serious methodological challenges, calling for a cross-referencing of the broadest possible variety of membership criteria.

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L. Lavinas, *The Takeover of Social Policy by Financialization*,
DOI 10.1057/978-1-137-49107-7_3

From the point of view of an economic definition, one generally uses cutoff lines—generally placed just slightly above the poverty line—to separate out those whose per capita income qualifies them as middle class. Between the lower and the upper bounds are to be found all those who are neither designated as poor[7] nor the bearers of indisputable signs of wealth. Treading with care in the case of Latin America, the Organization for Economic Co-operation and Development (OECD) uses the term "middle sectors," defined as households with per capita income between 50 and 150 percent of the national median.[8] There are those who prefer to use daily spending to identify and measure the middle classes, in a more direct reflection of their well-established consumption capacity,[9] an attribute not entirely defined by individual or household income. In either case, however, the defining element is these groups' relationship to consumption.

The idea that basic, subsistence-related deprivation has been overcome,[10] making way for an increasingly diversified and broad consumption pattern, lends physical materiality to this new social stratum, one whose bounds, be those what they may, encompass an undeniably heterogeneous mass.[11] The impression of a multiplicity of middle classes—beyond the new versus old dichotomy—is well founded.[12] It would recognize that the groups in question harbor a variety of ambitions, subjectivities, and visions of society, as well as levels and styles of consumption.

This construction, however, is by no means a consensus. William Easterly, for example, heads in the opposite direction. After carrying out a series of econometric tests, he argues that as middle classes are shaped, they trend toward homogeneity, coalescing around a "middle class consensus." This would assume the influence of convergent forces working to radically attenuate class and ethnic disparities, so as to favor higher levels of income and growth and the provision of public goods.[13] From this perspective, middle classes, despite their often widely divergent lifestyles, share a set of core values and commitments.

To speak of "new" or "emerging" middle classes is to recognize a transition in the social structure of developing countries, with the consolidation of sectors with a fairly broad income spectrum and a plurality of socio-economic characteristics, but founded on the unequivocal common denominator that would seem to be their renewed, ever-broadening consumption capacity. An evolution in the composition of this social class has made itself visible; the sector is now less "orthodox," but remains just as essential and functional in its role in sustaining long-term growth and the accumulation of capital, be it physical or human. Socio-economic security

had long set the middle sectors apart from those struggling to ascend socially. Recent studies, however, conclude that in parts of the developing world, such as Latin America, these middle strata appear to be economically vulnerable and very much exposed to the risk of sliding down the income ladder.[14]

Seminal structuralists such as Aníbal Pinto[15] and Celso Furtado,[16] among others, had noted precisely this structural weakness in Latin American societies when it came to fomenting the expansion of their middle classes in an attempt to leverage economic development. This was the symptom that inspired their diagnosis of the relative backwardness in which peripheral countries found themselves mired. Overcoming social heterogeneity—understood as the struggle to eliminate the *internal peripheries*[17] of each country through the incorporation of the marginalized masses into the modern consumer market—would not only break the bonds hampering the progress of market relations, it would also homogenize the system of capitalist production, contributing to the dissemination of technical progress.

What is unprecedented about the recent economic development of Latin America in general, and Brazil in particular, is the very survival of that marked social heterogeneity—now tossed into a catch-all category without the effective materialization of a broad, definitive process of convergence. The economy began to grow again and the domestic market incorporated tens of millions of new consumers, tying them into a "new alliance" for development,[18] but none of this managed to strike at the deep roots of the heterogeneity and inequality that characterize Brazilian society.

In an insightful piece on the myth of economic development, Furtado argued that it was hardly likely that peripheral countries could come to adopt the forms of consumption prevailing in advanced economies. As he puts it, "the cost of this lifestyle, in terms of the depredation of the physical world, is so high that any attempt to extend it to the rest of the world would inevitably lead to the collapse of civilization as a whole, putting the survival of the human race in the balance."[19] This prophetic warning ought to have been hailed by all of the scholars of climate change calling for a radical shift in the way we produce and consume goods, those who recognize "that a right of the environment does exist."[20] Despite being on the vanguard of environmentalist thought, Furtado did not foresee modern finance's power to take the consumption patterns of wealthy countries to a global scale. As he saw it, the mass of the excluded, which was already

considerable at that point, would continue to grow. In the absence of a more egalitarian form of development oriented toward collective forms of consumption, it would be impossible to incorporate marginalized populations into the market society as it stood.

What came about, however, was that not only was mass consumption on the periphery of capitalism not nipped in the bud but it flourished, assimilating the excluded masses (the oversupply of labor, in structuralist terms). This process, moreover, went ahead in the absence of the structural changes that might have brought about an authentically egalitarian pattern of development—making the dichotomy of "modern" versus "backward" obsolete, to boot. The hegemony of neoliberal thought in terms of the democratization of finance[21] wound up leveling the once-insurmountable barriers to the emergence of mass consumer societies in the Global South, a strategic issue for structuralist thinkers interested in advancing industrialization at a continuous pace.

Few alluded to the fact that the vigorous growth of middle classes across the world was not only contemporary to but also probably the product of the unprecedented expansion of credit under neoliberalism[22] and the other financial services products that characterize the new financial order.[23] Homi Kharas emphasizes the prominent role of financial innovations such as consumer credit and mortgages in unlocking the spending power of the middle class in rich countries over the postwar period.[24] Now, however, this trend is taking in the diverse working poor and low middle classes in the developing world, supported by pioneering long-term financial arrangements that have consolidated the financial industry's place as a sector of innovations.[25] This is not merely a matter of galvanizing the masses' consumption capacity; now the challenge is to forge it in sectors where demand has always been structurally deficient.

Susanne Soederberg[26] has masterfully demonstrated that broad-based access to credit and new financial devices did not exclusively target the middle strata of market societies, nor was it a strategy limited to emerging or developing countries. Access to financial markets was amplified and deepened also and especially in the case of the poor, now elevated to the condition of consumers through safety nets and special programs of financial inclusion and financial literacy.[27] These programs, resting on a complex set of rhetorical and regulatory processes, have facilitated and normalized reliance on all sorts of lines of credit.[28] Soederberg shows how the argument of the democratization of credit (a reprehensible one at that), carried out on an international scale from the late twentieth century

onward, has shifted values of equality and liberty from the political to the economic sphere, reinforcing market citizenship and masking exploitative and unequal relations of power,[29] ultimately creating an industry of poverty.

This strategy would be redrawn during the aftermath of the crisis of 2008, when countless multilateral agencies—the G20,[30] the World Bank,[31] and the IMF, among others—threw themselves into the task of quickly formulating the guidelines for an agenda designed to foment continued growth and strengthen processes of financial inclusion. The document produced by the G20, for example, the G20 Principles for Innovative Financial Inclusion,[32] tops its nine-item agenda with the goal to "cultivate a broad-based government commitment to financial inclusion to help alleviate poverty."[33] In other words, faced with the devastating consequences of the financial crisis of 2008, which shook the foundations of both advanced economies and emerging countries, the solution was not to expand social protection networks, hone admittedly low-efficacy poverty-fighting programs, and/or to increase social spending on meeting basic demands ranging from shelter to food security and healthcare. Rather, their response was to quickly adapt remedies from the financial sector in the attempt to mitigate the effects of (future and present) crises on the most vulnerable in society, as if such initiatives were themselves completely free of risk—a nonsensical assumption, especially so when coming from finance. And surprisingly, or perhaps cruelly, it falls to the State, now robbed of its role as a welfare provider, to take charge in this transition.

The World Bank puts forth "inclusive financial systems" as a path toward equalizing opportunities, thus lowering inequality and staving off poverty, as well as simultaneously helping to boost economic growth. Finance is cast as the best way of improving the welfare of impoverished households. Firstly, it disciplines the poor, since "regular repayments are said to impose discipline on borrowers."[34] Such self-control is key in the eyes of the World Bank in the effort to transform the poor individual into an entrepreneur, making him or her more responsible in managing his or her irregular income streams, something made possible by receiving credit.[35] Secondly, finance introduces the rationale of collateral—that is, incentivizing people to accumulate savings and other small assets to reduce transaction costs and facilitate the development of an investor mentality. Thus, the poorest are able to invest in education (!), business, and in so doing provide themselves with a cushion to cope during lean years, instead of depending on State subsidies.

But the origin of this faith in finance as a panacea for the unpredictability of systemic and individual risks preceded the Great Recession by a few years. In 2000, the World Bank—then in the wake of yet another financial crisis—found itself launching a social protection framework dubbed a "social risk management" strategy. According to Robert Holzmann and Steen Jorgensen, the authors of the proposal, the traditional approach to social protection leaned too heavily on the role of the State as the provider of a vast array of public goods and services, being that these strained the public accounts to a worrisome extent and revealed themselves woefully inefficient in fighting extreme poverty.[36] The great challenge ahead was to keep the numbers of the poor from ballooning when new shocks inevitably came about, events that threatened to seriously compromise the well-being of those lacking the means to hold out and pull through—or, one might say, those lacking the assets to successfully manage risk.

The aim of this framework was thus twofold and integrated: "protecting basic livelihood as well as promoting risk taking," in a conception that clearly dovetailed with Robert Shiller's assumption that one must "take greater risks for good purposes"[37] if the ultimate goal is to surmount risk. Since modern finance has a bountiful array of risk management industries designed to provide a certain measure of economic security in times of economic hardship and welfare losses, all that would remain to do would be to establish the necessary links in a more proactive manner. The State would be left with the complementary role of providing social safety nets for risk-coping—mainly for the poor—and plugging holes here and there (such as unemployment benefits), as well as providing a legal environment through which to facilitate the functioning of these extended financial markets.

The economic crisis of 2008, which had advanced economies at its epicenter for once, pushed multilateral agencies back onto the warpath. Once again, they began crusading in favor of the dissemination of risk- and vulnerability-mitigation mechanisms through market-based and financial arrangements. The idea that a minimum level of social protection ought to be provided as part of a socio-economic floor bobbed back up to the surface, with the International Labor Organization (ILO) taking the initiative and the United Nations system lending massive support to the proposal.[38] The resuscitation of globalization as a process relevant to wealth generation, complete with a rhetorical makeover that attenuated its deleterious effects, required a vigorous, coordinated effort to exorcize people's fear of poverty and deprivation. But it was thus that the scope

of social protection was narrowed, and by the same institution which had conceived of it in the 1950s.[39] The ILO's vision had been of a comprehensive system, aimed at covering a wide range of contingencies, rather than one just combating poverty; providing benefits more nearly adequate to needs, instead of minimums for guaranteeing subsistence levels; and finally breaking the bond between benefits and contribution payments. At their inception, social protection systems were conceived to ensure that all citizens, without distinction of status or class, were offered equal treatment and the best standards available in relation to a particular agreed-upon range of social services.[40]

Now, what we behold is a complete reversal. Instead of equalizing opportunities and sharing risks, the watchwords of the social protection floor paradigm are jump-starting opportunities and minimizing risks. This tack turns its back on the universalizing approach rooted in solidarity that had shaped the various social protection regimes as they emerged in advanced economies in the postwar period—regimes that played a decisive part in promoting a new pattern of redistribution and welfare in their respective countries, inspiring a variety of welfare models across the world. The social protection floor model shares in the same logic as social risk management strategy, in that it speaks in terms of basic income security and universal access to essential affordable social services whose content is yet to be defined at the national level. The meat of the model—monetary transfers and basic services—makes it clear that this is not a matter of introducing other forms by which to provide social goods and services, but rather "facilitating the movement of people from social assistance into comprehensive forms of insurance."[41]

In keeping with ILO Recommendation 202,[42] basic guarantees should be ensured to vulnerable groups, those who already stand as the traditional clientele of poverty-fighting programs. Such guarantees focus on providing access to essential healthcare (including maternity care) and basic income security for three specific groups: poor children (providing access to nutrition, education, care, and any other necessary goods and services); the working poor, the unemployed, or the underemployed who are unable to earn sufficient income (in cases of sickness, unemployment, maternity, and disability); and senior citizens with no social insurance scheme. Note that the nucleus of basic security has been remodeled and is now limited almost exclusively to safety nets associated with certain primary healthcare services, the financing and provision of which may be either private or public.[43]

The model thus revolves around guaranteeing financial means—necessarily in the form of extremely modest monetary transfers—by which to access certain services. All the other dimensions of the contingencies that made up a complex and integrated social security system back in the 1950s—housing, education, ongoing professional training, all on equal terms—have been tossed out. The ILO's midcentury model was designed to cover a broad array of needs, rather than providing just a bare minimum or at most an elemental structure of benefits. Now, poverty is essentially cast as a lack of revenue, a shortfall that can be resolved through monetary transfers. The decommodified dimension of social protection, a crucial element in that it separated access to welfare from income, has been largely eliminated.

The new social protection floor proposal, moreover, which has been met with almost unanimous approval from ILO members—workers, employers, and governments alike—uses language which refers to "floors" and "minimums" almost interchangeably, without defining them. A minimum is not necessarily a floor; quite the contrary. While the latter establishes a starting point from which something begins, may progress, and build upon—that is, a stable foundation upon which one may safely and sustainably begin to work—minimums represent the smallest possible portion of something, the lowest level imaginable. A minimum is fundamentally incapable of sustaining more ambitious projects, nor can it guarantee a basis from which to reach a floor. Floors are not minimums, nor are they the sum of several minimums. The latter may also be arbitrarily set figures, which hardly qualifies them to provide the basis of a citizenship-based protection system. As Lutz Leisering reminds us, "basic social security rests on several pillars," not solely on a minimum income at the threshold of indigence or poverty, nor on basic healthcare services.[44]

The tone and the outlook are put unambiguously here: provide support for the critically poor, and provide tools for the rest to manage risk.

In this state of affairs, the poor are able to take advantage of restricted, conditional public provision, mostly in the form of cash transfers, to keep market failures from stifling the dynamic of the accumulation process. A few elemental services addressing basic necessities are also available to those whose degree of destitution is so keen that the market has no interest in addressing their needs. For the rest, the non-poor now granted membership in the "new" middle classes, modern finance will provide a solution tailored to their needs and expectations.

Beyond all this, the onward march of the democratization of finance spells an increased convergence of finance and the life cycle.[45] Every day more and more households will rely on financial markets for the provision of social goods, while public provision shrinks and deteriorates, left to those who have no other choice. The material culture of consumption, in short,[46] is no longer a trait limited to middle- and upper-class strata.

The Brazilian Context: Financial Inclusion and Consumption Shaping the "New Middle Class"

If Brazil is put under the lens of the OECD methodology, which defines middle sectors as those whose per capita household income (all of the income brought in by the household as a unit) lies between 50 percent of the median (the threshold of the poverty line adopted in the European Union) and the value equivalent to 150 percent of the median,[47] the group in question would include 92.4 million people in 2014, as opposed to 71.1 million in 2003.[48] In relative terms, the "middle sectors" swelled from 41 to 47.5 percent of the population. From a purely statistical point of view, it is thus unquestionable that the middle classes did indeed expand. But the extent to which it expanded, and the nature of this new group, would be the subject of the heated, polarized debate over the "new middle classes"—as Marcelo Neri dubbed them[49]—in Brazil during Lula's second administration.

Neri's estimation method was based on different parameters, calculating the "C class," or intermediate sector, as the population of ages 16–60 between the median of household per capita income (considering labor income alone) and the lower limit of the upper decile, just below the AB class (the richest 10 percent). In numerical terms, according to Neri, around 29 million people entered the so-called new middle class between 2003 and 2009.

A comparative look at these two attempts at measuring speaks volumes as to the difficulties presented by adequately estimating the real variation in this intermediary income bracket. Depending on how one sets one's parameters, growth can vary by up to 100 percent.

Many, however, saw the massive job creation and rising wages of the 2000s as leading to a significant increase in the working class,[50] as opposed to the appearance of a new middle class. "Middle class," in their view, would refer to a set of immaterial values and cultural differences setting the group apart in a sense beyond their insertion in the job market.

For his part, André Ricardo Salata[51] takes yet another perspective. Working from a national survey aimed at understanding the behavior of the category in question, he sought to see[52] how the groups making up the so-called middle classes would categorize themselves, rather than randomly placing them within a given social group based on their income bracket. He argues that the social position of a given individual is forged through a process of identification, be it of belonging or distancing, and concludes that "there is no clear class identity for this intermediate socioeconomic profile."[53] In other words, these intermediate sectors, or what he refers to as the "statistical middle class"[54] —the "new middle class"—does not see themselves as middle class, nor are they seen as such. The median Brazilian does not view herself as a member of "the" middle class, rather defining herself as either lower class, quasi-middle class, poor, or simply as a worker. While having escaped from poverty, she remains below that which might be referred to as the traditional middle class, an economically privileged group whose social status is both undisputed and enviable. Those who do recognize themselves as middle class, as Salata points out, are the members of the high-income strata (the "AB" class), still a slim minority, just as they had been during the decades of the first developmentalist boom.[55]

In the Brazilian case—and possibly also in other developing countries where the phenomenon of the "new middle classes" was observed—this expansion of the middle sectors is characterized more by their incorporation into the mass consumer market than any structural change in the direction of greater social homogenization or the breaking down of material and symbolic barriers. Salata's results indicate that the vast majority of the "new middle class" continues to see itself as both distant and different from the "real" middle class; modernization by way of consumption does not appear to have been enough to boost the social status of those now able to consume durable goods and certain services. Brazil's traditional middle class also failed to shed its elitist profile, effectively differentiating itself from the very wealthy, or embrace groups whose identity is aspirational,[56] in the making.

Conclusions such as these would seem to fly in the face of the interpretations of many developmentalists, who argue that "the greatest structural transformation observed over the period was the change in the composition of household consumption by income bracket,"[57] focusing on the middle sectors' starting to consume new goods and services, household appliances in particular. In Chap. 2, we saw that the mass consumption model was unable to subvert its associated national productive structure

by stimulating it and promoting innovation. That meant that Brazil was left out of the group of converging globalizers, unable to formulate technological catching-up or even capital accumulation strategies.[58] Now we see that it was likewise unable to forge a robust, demanding, and more homogeneous (and thus more cohesive) middle class. This group might have made a tremendous contribution in terms of driving productive differentiation, boosting private investment and innovation in the production of new goods and services, in addition to cultivating democratic values. These linkages never came about. Global capitalist mass production can operate perfectly well in the absence of virtuous productive local linkages, but cannot do without a growing global mass consumption process.

The coexistence of numerous middle class sectors, each grating on the next and refusing to recognize themselves as part of the same category, explains the lack of a "middle class consensus."[59] This quite probably revealed itself as an obstacle to the construction of a robust political coalition which might have been able to promote substantive change in the productive structure and social makeup of Brazilian society. In turn, this trajectory doubtless explains the opening of the impeachment process against President Dilma Rousseff, a topic which will be addressed in greater detail in the last chapter of this book. Brazil's transformation in recent years has been mainly a transition to a mass consumer society by way of an aggressive incorporation by the market, essentially based on a primary distribution (made possible by rising employment and salaries) rooted in the exponential expansion of consumer credit and household debt.

More mass consumption on the part of social groups falling in the first half of the income distribution curve does not characterize a structural transformation, in my view. They came to enjoy what was only a semblance of middle-class life, "struggling to acquire consumer status markers,"[60] well aware that membership in their target group is hardly automatic, and is far from being made a reality.

Under the aegis of neoliberalism, the incorporation of the working classes into the consumer market (especially in the developing world) is a consequence of the inexorable process of "commodification all the way down."[61] None is left unscathed. Thus, although low-income families' consumption has diversified significantly, this did not spur a process of social transformation.

The broad outlines of this shift (a contradictory one to say the least) may be seen in Fig. 3.1. In just a decade, the ownership of durable goods

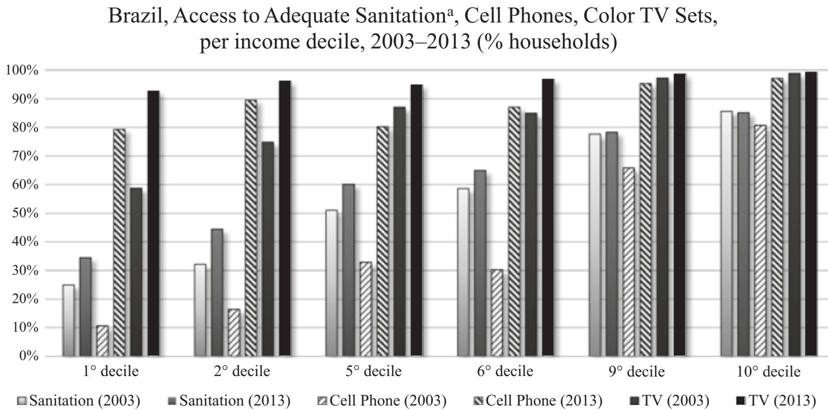

Fig. 3.1 Brazil, access to adequate sanitation (running water + sewage + adequate garbage collection), cell phones, color TV sets, per income decile, 2003–2013 (% households) [*Source*: PNAD 2003 and 2013]

such as cell phones, color TVs, and fridges became almost universal across income deciles. No such trend was to be seen, however, in terms of adequate sanitation (treated water, trash collection, and satisfactory sewage systems). Performance in terms of the provision of public facilities has not tracked remotely close to the vitality of the market. It does, however, reveal welfare inequities that the market obscures. Through this prism, and following the line of argument put forth by Easterly,[62] the upward social mobility observed in Brazil in the years spanning 2003–2014 failed to even come close to promoting a true expansion of the country's middle classes. In Brazil, the market has universalized access to color TVs and fridges among those in the lowest income quintile. Treated water, however, to say nothing of adequate sanitation, remains a luxury, the province of few.

The purchasing power of this new middle class was galvanized by the process of financial inclusion of which they are a part, mushrooming in the mid-2000s.

Indeed, financial inclusion became a flagship in the Brazil of the Lula-Dilma era. Isolated initiatives, such as seminars on increasing micro-credit—which were plentiful around 2002—were quickly supplanted by the formulation of a complex, manifold national strategy for the financial inclusion of low- and middle-income groups, aligned with the G20 prin-

ciples for innovative financial inclusion.[63] Developing financial literacy and financial capability so as to stave off overindebtedness in these emerging middle sectors soon arose as a major concern. To better tackle this issue, the Brazilian Central Bank Forum on Financial Inclusion was created in 2010, with the support of federal institutions that included the Ministry of Finance, Justice, Social Affairs, the Exchange Commission of Brazil, the National Superintendence for Pension Funds, and the National Superintendence for Private Insurance, among others. The growing phenomenon of the new middle class was wielded as a key argument in favor of putting forth a new regulatory framework, both to boost financial products and services and also to improve consumers' understanding of the risks, costs, terms and benefits involved. By the end of 2011, the National Strategy for Financial Literacy had come into being, followed soon after by the 2012 creation of the National Financial Literacy Committee.

While the former consists of a national policy that seeks to foment "a culture of financial education" and "contribute to the efficiency and soundness of financial, capital, insurance, and pension funds markets,"[64] the latter includes an array of public and private financial institutions under its umbrella, brought in to draft and supervise its projects.

What is most striking is the target population of these projects: children and youth constitute the top priority, followed by vulnerable adults, that is, female Bolsa Família recipients and pensioners. Textbooks have already been distributed in elementary schools on how to forge a disciplined approach to consumption and savings; with the support of the Ministry of Social Affairs, apps for controlling household and personal budgets have been disseminated among Bolsa Família beneficiaries and the elderly. The through-thread of this sort of intervention implies shifting responsibility for choices onto the individual at every stage of his or her life—one of the pillars of the neoliberal logic.

Witnessing this painstakingly engineered turnabout in Brazil, Grün would dub it the "financialization of the left."[65] This was the boosting, autonomization, and legitimation of the financial markets—all in the light of day and under the rule of the Workers' Party. Bit by bit, the financial realm came to reconfigure and subordinate other sectors of the economy, to say nothing of social policy.

At this juncture, the intervention of the State in regulating the financial market under the Workers' Party should be highlighted; it evidently went far beyond policies of financial inclusion, which were designed to lend a broader scale to and legitimize the presence of finance in sectors

once impermeable to its influence. A succession of full or partial income tax breaks for gains on the financial market were created in Brazil after the Constitution of 1988, for both individuals and corporations. Under the Workers' Party, this came to be extended to foreign investors as well. Annex puts forth a summary of the instruments adopted by each administration since 1995 with the aim of incentivizing financial investment. It becomes evident that over the course of two decades, capital gains from investment funds or other financial assets either benefited from complete income tax breaks or saw their rates reduced.

Under Fernando Henrique Cardoso, fixed income and equities investments were taxed at a single rate, varying over time from 10 to 20 percent. Under Lula, meanwhile, there came significant changes to tax policy. Fixed income assets and investment funds came to be taxed at graduated rates, depending on the length of the investment: the longer the investor kept his or her assets in the same investment, the lower the applicable income tax rate. As for equities, a rate was fixed at 15 percent, with an additional percentage for day-trade operations and on monthly gains. The greatest feat of Fernando Henrique Cardoso's government on this score, however, would be removing all income tax liability for gains and dividends distributed to company shareholders—a measure unheard-of in any other country, except Estonia. The Workers Party did nothing to change this.

The tenure of the Workers' Party, meanwhile, was marked by a bevy of tax breaks and exemptions awarded to those who acquired securities. Here, one might mention the LCI, LCA, WA/CDA, CDCA, and CRA,[66] which are income tax-free investments for individuals which encourage them to participate in the financial market, offering potentially high profit margins free of taxation. This policy was intended to promote more long-term investments and to increase the duration of assets in the capital markets. However, in the end, this policy proved innocuous.

Similarly, it was under Lula that foreign investors were granted the same privilege when acquiring government bonds.[67] This incentive has exacerbated speculative practices on the part of these agents, who tend to profit from the increase in Brazil's public debt.

During Dilma Rousseff's term in particular, tax breaks went to infrastructure debentures, gains from which taxation for individuals are completely exempt (15 percent for corporations). Financialization, in this case, cuts two ways: (i) contractors are encouraged to launch their shares on the stock market, dangling the possibility of steep profit margins by way of speculation, while (ii) simultaneously encouraging individuals to invest in capital markets.

Moreover, over the course of 2015, other financial instruments, including Letra Imobiliária Garantida (LIG) and Cédula de Produto Rural (CPR), also escaped from income taxation.[68] At the same time, gains on the liquidation of assets by individuals of smaller corporations—those with a market value equal to or below 700 million Reais (US$ 210 million), with annual gross revenue of less than 500 million Reais (US$ 150 million), and primary issuance corresponding to at least 67 percent of stocks issued by the company—will be tax-free through 2023. There is, therefore, no lack of incentive for companies with these characteristics to financialize and for individuals to play a more active role in the stock market, the behavior of which has been erratic and high-risk over recent years.

Consumer Credit: Spearheading the Financialization of Social Policy

The creation of new modalities of credit for individuals, with a special focus on consigned credit, would stand among these shifts as the most innovative dimension yet, exerting a strong driving force in expanding access to the financial sector to broad strata of society.

In 2003, at the end of the first year of President Lula's first term, even before the creation of the Programa Bolsa Família and a good number of other progressive-minded initiatives that would come to mark the Workers' Party's tenure (e.g., such as the new policy on the revaluation of the minimum wage), the government launched a new line of credit. At first it was only made available to civil servants, but was soon expanded to include workers in the formal sector and to retirees and pensioners covered by the General Social Insurance Regime (Regime Geral da Previdência Social, or RGPS).

The proposal for the measure had been drawn up by Luiz Marinho, then-President of the Workers' Party-affiliated Unified Workers' Central (Central Única dos Trabalhadores, or CUT), and had been received enthusiastically by President Lula and his team. They saw it as a way to put downward pressure on interest rates, which remained at obscenely high levels at that early stage of the administration (25.2 percent on an annual basis by January 2003[69]), and to stimulate the economy to boot.

To give some idea of the breadth of coverage of this target population, by around 2003, civil servants in federal, state, and local government in Brazil accounted for something like 12.5 percent of total employment,[70] or some nine million people, with salaries that tended to be significantly higher than the national average.[71] The number of retirees and pensioners

in the public social insurance regime, meanwhile, stood at 19.5 million that year. Formally salaried employees, whose ranks would swell considerably, as indicated in Chap. 2, numbered 23.3 million, or 32.2 percent of all those employed in the country. A national World Bank survey carried out in 2002 found that only 15 percent of Brazilians over age 18 had requested a loan in the year preceding the questionnaire.[72] Of those, one-third had their applications rejected, generally (in 66 percent of cases) because they lacked an income stable or sizable enough[73] to serve as collateral. Back then, access to bank loans was positively and significantly correlated to income, but with extremely reduced coverage. This posed a considerable opportunity in terms of the potential for credit to expand in certain categories with collateral, moving to meet unmet demand.

Consigned credit[74] was not a novelty in and of itself, having been tried out in other countries[75] in slightly different forms. In essence, it is a loan where installments are deducted automatically from paychecks (in terms of those employed, this applies to civil servants and salaried employees) or from retirement plans or death pensions.[76] On entering into a loan, financing agreement, or beginning to use a credit card conceded by financial institutions, the borrower issues an irrevocable authorization for the installments to be taken out of their paychecks. The cap on these payments was originally set at 30 percent of net pay, but was raised to 35 percent in 2015 as the economic crisis deepened and household debt and default marched onward at disturbing rates.[77] The new cap, however, stipulates that the extra 5 percent go toward paying for purchases paid for with credit cards, or credit card withdrawals.

In theory, there are no preset interest rates or payment terms. In 2015, however, an alteration to a provisory measure regarding consigned credit for retirees stipulated that the number of installments in repaying the loan should not exceed 72 successive monthly payments, and capped the interest rate at 2.14 percent per month.[78] In practice, there are banks that tend to shorten the term of concession of credit to 36 months, while others extend it beyond 80 months, depending on the type of loan.

In the case of civil servants, the contract is struck between the employee and the bank. Once it is signed, however, the employer is tasked with deducting the amounts in question and sending monthly payments to the financial institutions. The same is true for retirees within the public social insurance system, for whom the National Institute of Social Security (Instituto Nacional da Seguridade Social, or INSS) enables and signs agreements with financial institutions to grant consigned credit, withhold

payments and send them on to the banks. Employers or the INSS are allowed to deduct the administrative costs of carrying out the financial transaction from the borrower's pay.[79] In the case of salaried employees in the private sector, the mechanism is quite similar; in 2015, however, they were authorized to use up to 10 percent of the funds in their accounts tied to the Length-of-Service Guarantee Fund (Fundo de Garantia do Tempo de Serviço, or FGTS) to cover debts relating to consigned loans. The FGTS is comprised of individual funds[80] belonging to each worker, which are paid into during their term of service and which may only be tapped in specific circumstances (arbitrary discharge, to purchase property, retirement, severe illness, etc.) laid out in the law. The usage of this sort of fund was also made more flexible in 2015, given rising default rates, to cover financial debts contracted via consigned credit. The Workers' Party administrations evidently came to alter caps or usage rules for certain social programs or credit lines in order to guarantee profits for the financial sector.

At first, few banks took to consigned credit operations. The Ministry of Social Insurance went so far as to send letters to pensioners and retirees—over 10 million, at the time, in 2004—with the aim of boosting demand for consigned loans through the financial sector as well, thus jump-starting this new form of credit. From 2004 to 2012, the number of banks working with consigned credit went from 9 to 41.[81] Bit by bit, market segmentation has been advancing.

Private banks' target population of choice is made up of retirees and pensioners covered by the General Social Insurance Regime (RGPS), while public banks (Banco do Brasil and Caixa Econômica) tend to focus on clients tied to civil service.[82] As for formally salaried employees, the banks attempt to bring them in by signing agreements with trade union centers (e.g., CUT and Força Sindical) in which the latter become intermediaries in granting consigned credit.[83] Within financial institutions, consigned credit has thus inaugurated the practice of engaging in an "active search" for retirees, which may even be carried out by correspondent banks,[84] as well as competition for state and municipal payrolls,[85] indicating the two central clienteles for this sort of credit.[86]

According to the Brazilian Central Bank,[87] in 2014, consigned credit was distributed as follows, in terms of volume: 61.7 percent went to civil servants, 30.6 percent to retirees and pensioners, and just 7.6 to salaried workers in the private sector as a whole. This segmentation unveils that these three groups of borrowers enjoy different loan conditions and interest rates, conforming to the credit risk derived from their income and its

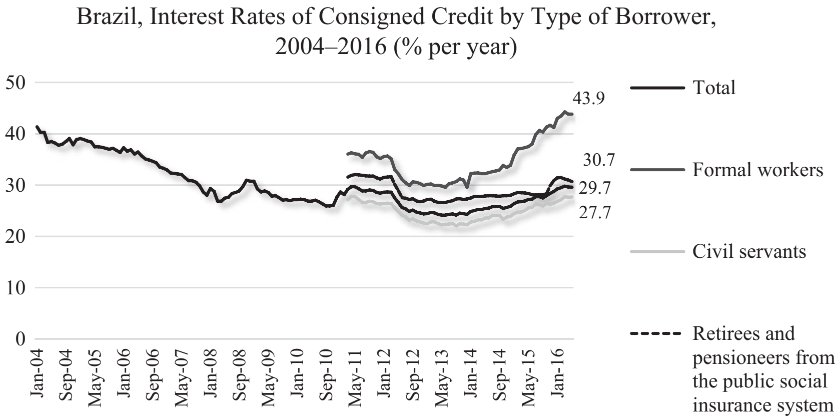

Fig. 3.2 Brazil, interest rates of consigned credit by type of borrower, 2004–2016 (% per year) [*Source*: Bacen, Nominal rates]

origin. As a result, civil servants and retirees benefit from lower interest rates as compared to formal workers, who are charged much higher rates. Figure 3.2 shows the variation in the average interest rates for consigned credit across three categories. Surprisingly, the average consigned credit interest rate for workers in the formal sector began to diverge from the rates to which civil servants and retirees and pensioners were subject, starting in 2013 and reaching a spread of 15 percent per year. As economic activity and job creation faltered, in other words, the financial sector raised interest rates for those exposed to the risk of unemployment. This is more evidence for the direct role of the State as a guarantor working to reduce credit risk.

This confirms a crucial differential in the case of consigned credit in Brazil. Most of its clientele (over 90 percent) relies on very specific form of collateral: regular income paid by the State, whether in the form of salaries or a social security benefit. It was through this social engineering that previously marginalized income pools lacking collateral were given unprecedented access to financial markets. Here, the novelty of the social-developmentalist model was the institutionalization of a long-absent connection between credit, on the one hand, and wages and benefits, on the other, with the State serving as the principal underwriter. Their reach was not limited to the credit market for low-income sectors, but expanded to a broader access to financial markets, as it was expected that the stimulus

from the demand for consigned credit would boost the sales of banks' other services and products (checking accounts, credit cards, investment funds, private pension plans).

The State's role goes even further, however, in that it eliminates other costs for the financial sector—such as missing documentation or credit records for low-income or poor clients—factors that stand as eligibility barriers for borrowers, raising both costs and risks for the banks involved.

The State manages the registration information for all Bolsa Família recipients through the CadÚnico system, which manages the detailed records for all the households, whether beneficiaries or not, which requested to be included in the program. CadÚnico is handled by the Ministry of Social Development and the public bank Caixa Econômica Federal. Similarly, the registration information for all the retirees and pensioners covered by the RGPS is handled by the Ministry of Social Insurance and DATAPREV. Finally, the purchasing of municipal and state payrolls makes it possible for banks to access complete records for civil servants—including, for example, information on whether paychecks are subject to automatic discounts (for alimony), the real value of available income, and so on.

This exchange of information and records between the public sector and the financial sector explains a phenomenon which recurs with each new retirement benefit: the newly minted retiree is immediately contacted by the bank where he or she will receive his or her regular social security benefit. For those whose benefits are equal to the social protection floor, authorizing them to receive one minimum wage per month, banks offer to create an automatic consigned credit line, potentially depositing in the retiree's account a sum that may be up to 20 times the value of the benefit. This may be carried out over the phone, without the client even visiting a bank.

It should be said that of the major private banks, approximately 75 percent of banking transactions are now carried out online[88] (50 percent on mobile phones), and over 40 percent of individual credit loans are granted over the Internet. This suggests that the price of ease and speed, with a reduction in inconvenience costs, is compensated by the access to confidential information (registration and records) managed by the public sector, which offer banking activity a greater measure of security, cutting down on moral hazard. Online self-service banking raises questions as to real progress in terms of the reduction/elimination of information asymmetries, whereby the client—low-income clients in particular—might be better equipped to make decisions befitting his or her needs and in keeping with his or her budgetary restrictions.

The speed with which household debt has deepened, pushing default rates ever higher, suggests that problems of information asymmetry and information processing[89] have by no means been satisfactorily addressed, which comes as little surprise. The swift rise in default rates has immediate consequences on banks' strategies for expanding consumer credit; consigned credit takes on even greater prominence, becoming the favored form of loans for individuals among the country's major banks. But faced with the risk of default, some financial institutions have been driven to swap out client debts for revolving credit or overdraft banking via consigned credit, when possible. The almost non-existent risk of a failure to pay makes up for lower interest rates vis-à-vis other forms of credit with an astronomical spread. Average rates for (non-consigned) consumer credit stand at around 139.78 percent p.a.,[90] while the average term for new loans came to 50 months, as of December 2015.[91] It is no coincidence that a significant part of new credit loans went toward renegotiating outstanding balances, looking to concentrate the debt[92] in a single bank, reduce interest rates, and extend deadlines.

According to the Brazilian Central Bank, in December 2014, one-third of all consigned consumer loans and one-fourth of total non-consigned credit went to households with a monthly income up to three minimum wages (US$ 820), which proves how low-income families, or the "new middle classes," have been at the forefront of the banks' strategies in expanding access to credit.[93] In the same year, of the 56 million borrowers who took out loans from financial institutions, 34.4 million earned less than three minimum wages. Moreover, they accounted for 28 percent of total credit granted, the second-highest percentage after the wealthiest income bracket (those earning ten minimum wages and up), which took up 38 percent of the whole.[94]

This is the positive side of the phenomenon. The worrisome part, meanwhile, is that the debt-income ratio for these borrowers—estimated via the income declared by borrowers when taking out each loan—hit an average of 64 percent in 2014. For the lowest-income borrowers, those earning up to three minimum wages, the debt-income ratio stood at 73 percent. Since default depends on the degree to which household income is compromised by repayment and interest-related expenses, there is no doubt that the groups most at risk of default are precisely those at the tail end of the income distribution.

On another front, between 2003 and 2007, microcredit[95] was also legally regulated in Brazil,[96] 90 percent of which was underwritten to

finance daily consumption,[97] a trait also highlighted by Gary Dimsky.[98] This percentage would fall gradually, beginning in 2013, when it was established in law that 80 percent of this credit would need to be directed toward productive ends. Nevertheless, by December 2010, consumption still constituted 67 percent of the applications of this instrument.[99] Demand for microcredit remains slight in Brazil. It is focused in the country's northeast, with the region accounting for 52.1 percent of Brazil's microcredit portfolio, and pales in comparison to consumer credit.[100] That being said, in the thick of this seemingly unending recession, demand for microcredit was seen to increase sharply over the course of 2015–2016. Faced with unemployment rates above 10 percent, the "entrepreneurial" model gained ground, with women as the main clientele (70 percent of all loans). In all, microcredit operations accounted for just R$ 5.3 billion (US$ 1.58 billion) in 2015, or 0.2 percent of the total volume of credit operations.[101] The average loan is fairly small, around R$ 3000 (US$ 887).

Finally, in 2008, in a systematic attempt to deepen the financial inclusion of beneficiaries of Bolsa Família, the Banking Inclusion Project (Projeto de Inclusão Bancária, or PIB) surfaced. As an under-the-radar program, the PIB was envisioned to take new instruments and financial services to a targeted public in order to combat poverty. The project would first limit itself to the opening of simple accounts via Conta Caixa Fácil (as per an agreement between the Ministry of Social Development and the public bank Caixa Econômica). Its expansion was immediate—in no time, credit cards and other services and products were also developed under the PIB framework.[102] Yet the fact that only around two million families joined (out of the 14 million who were registered as beneficiaries by 2010)[103] indicates that the program's prices and conditions stymied the interests of the most vulnerable groups in the financial markets. In spite of this, financing for the acquisition of consumer durable goods was still significantly expanded, even to the poorest. When taking out consumer loans through retail chains to buy home appliances, Bolsa Família recipients are subject to the regular interest rates applied by retailers, which are at around 7–8 percent per month (nominal).

In 2016, on the eve of President Rousseff's suspension, the federal government authorized the creation of simplified individual accounts for Bolsa Família beneficiaries. This measure would constitute the definitive insertion of the demonstrably poor population into the financial realm, and was an attempt to resuscitate a previous failed attempt. Until then, assistance benefits had been withdrawn using debit cards from accounts at Caixa

Econômica Federal, managed by the Ministry of Social Development. Bolsa Família recipients who so desire are now able to open individual accounts that allow access to a broad array of financial products, especially small insurance policies that cover a variety of risks. For example, funeral insurance[104] could be taken out with a large private bank for R$ 8.44 per month (or US$ 2.30) as of June 2016.

The insurance market is doubtless a prominent figure on the front lines of the financialization of social policy, just behind consigned credit operations. For this low-income target population, microinsurance policies have cropped up to cover areas such as life insurance, education, credit (temporary coverage in cases of involuntary default), severe illnesses, funerals, and personal accidents. Premiums are relatively low and coverage is accordingly scanty and limited.

This particular trend is yet another example of a well-orchestrated strategy meant to boost the expansion of financial mechanisms, which had developed in the name of democratized access to credit markets, notably for poor and vulnerable social groups who were previously excluded outright. This move toward financial inclusion risks promoting a different form of financial exclusion among the previously uncollateralized.

On the other hand, the "new" middle class is not only defined by its incorporation of certain contemporary styles of consumption, but also by its growing financial vulnerability—a scar of the process by which its members were included. The risks and socio-economic insecurity plaguing this segment will tend to increase, leaving behind an old ideal of stability and comfort that now looks more like a mirage.

Notes

1. Therborn, "Class in the 21st Century"; "Latin America in the Middle Class Century."
2. Schor, "The New Politics of Consumption."
3. Therborn, "Latin America in the Middle Class Century."
4. Therborn, "Class in the 21st Century."
5. Ferreira et alii, "Economic Mobility and the Rise of the Latin American Middle Class"; Neubert, "What Is "Middle Class"?"
6. Banerjee and Duflo, *Poor Economics*; Ferreira et alii, "Economic Mobility and the Rise of the Latin American Middle Class."

7. Simmel, *Les Pauvres.*
8. OECD, "How Middle-Class Is Latin America?"
9. Casting the global middle class as comprised of those whose daily expenses range from 10 to 100 dollars, Homi Kharas estimated that they stood at around 1.8 billion as of 2010, with slightly over half concentrated in Europe, the U.S., and Canada. Kharas, "The Emerging Middle Class in Developing Countries," 16.
10. Cerni, "Consumerism"; Therborn, "Class in the 21st Century."
11. Neubert, "What Is "Middle Class"?"
12. Heiman, Liechty and Freeman, "Charting an Anthropology of the Middle Classes."
13. Easterly, "The Middle Class Consensus and Economic Development," 318.
14. OECD, "How Middle-Class Is Latin America?"
15. Pinto, "Natureza e Implicações da 'Heterogeneidade Estrutural' da América Latina."
16. Furtado, "Subdesenvolvimento e Dependência."
17. Pinto, "Natureza e Implicações da 'Heterogeneidade Estrutural' da América Latina," 578.
18. Lavinas and Simões, "Social Policy and Structural Heterogeneity in Latin America."
19. Furtado, "O Mito do Desenvolvimento Econômico," 174.
20. Laudato Si, "Second Encyclical of Pope Francis."
21. Shiller, *The New Financial Order;* Erturk et alii, "The Democratization of Finance?"; Montgomerie and Williams, "Financialised Capitalism"; Soederberg, *Debtfare State and the Poverty Industry.*
22. Soederberg, "Universalising Financial Inclusion"; *Debtfare State and the Poverty Industry.*
23. Shiller, *The New Financial Order.*
24. Kharas, "The Emerging Middle Class in Developing Countries."
25. Shiller, *The New Financial Order.*
26. Soederberg, "The Politics of Debt and Development in the New Millennium"; *Debtfare State and the Poverty Industry.*
27. Erturk and alii, "The Democratization of Finance?"; Santos, "Financial Literacy, Financialization and Neoliberalism"; Lavinas, "21st Century Welfare."
28. Soederberg, *Debtfare State and the Poverty Industry,* 61.
29. Ibid., 62.

30. Soederberg provides an in-depth analysis of how the G20 Financial Inclusion Experts Group forged the G20 Principles for Innovative Financial Inclusion in 2010. Soederberg, "Universalising Financial Inclusion."
31. Honohan, Beck, and Demirgüç-Kunt, "Finance for All?"
32. G20 Financial Inclusion Experts Group, "Innovative Financial Inclusion."
33. Apud Soederberg, "Universalising Financial Inclusion," 598.
34. Honohan, Beck, and Demirgüç-Kunt, "Finance for All?," 123.
35. This moral dimension of discipline is a fundamental element in any and all so-called poverty-mitigation mechanisms under the aegis of neoliberalism, whether in the financial sphere or in terms of safety nets structured by conditionalities designed to encourage and incentivize good behavior on the part of the poor. This line of thinking would indicate that poverty is still seen as the product of laziness and passivity, casting it as a choice! See Lavinas, "21st Century Welfare."
36. Holzmann and Jorgensen, "Social Risk Management."
37. Shiller, *The New Financial Order*, 1.
38. ILO, "Social Protection Floor for a Fair and Inclusive Globalization."
39. ILO, "The Quest for Universality."
40. Briggs, "The Welfare State in Historical Perspective."
41. ILO, "Social Protection Floor for a Fair and Inclusive Globalization," xxviii.
42. Ibid., R202.
43. No ILO document on the social protection floor specifies whether basic healthcare services ought to be public, free, and universal. Once again, this is left to the discretion of each country.
44. Leisering, "Social Cash Transfers to the Poor."
45. Van der Zwan, "Making Sense of Financialization," 111.
46. Fine, "Towards a Material Culture of Financialization."
47. In 2003, 50 percent of the median corresponded to R$ 95.00, or R$ 192.00 in constant BRL as of December 2015 (INPC). The upper limit of the cutoff, meanwhile, stood at R$ 285.00 in 2003, the equivalent of R$ 577.00 in constant BRL as of December 20, 2015. For 2014, those figures are, respectively, (i) lower bound of 50 percent of the median of R$ 331.00 (or R$ 374.00, when adjusted); (ii) upper bound (150 percent of the median) coming to

R$ 993.00 (or R$ 1122.00, in constant BRL as of 2015). The median is seen to enjoy a real increase on the order of 95 percent over the period.

48. PNAD, 2003–2014.
49. Neri, *A Nova Classe Média*.
50. Pochmann, *Nova Classe Média?;* Souza, *Os Batalhadores Brasileiros*.
51. Salata, *A Classe Média Brasileira*.
52. Salata uses multinomial logistic models to test the hypothesis that individuals placed in the "C" category are less likely than those in the "AB" group to identify themselves as middle class. His dependent variables are "class identities" (no class, lower class, working class, lower middle class, and middle class). The independent variables are: region, consumption classification, education level, income, gender, and occupational status of the head of household.
53. Salata, *A Classe Média Brasileira*, 104.
54. Ibid., 144.
55. Quadros presented a pioneering analysis of middle classes in Brazil, which began sprouting in the 1950s and 60s, amidst an accelerated process of urbanization and modernization. According to his estimates, by 1950, the "new urban middle class" stood at 24.5 percent of the population, and would rise to just over 31 percent by 1980—a slight variation over the course of 30 years, a period which saw high rates of population growth.
56. Heiman, Liechty, and Freeman, "Charting an Anthropology of the Middle Classes."
57. Medeiros, "Inserção Externa, Crescimento e Padrões de Consumo na Economia Brasileira," 127.
58. Kharas, "The Emerging Middle Class in Developing Countries," 20.
59. Easterly, "The Middle Class Consensus and Economic Development."
60. Heiman, Liechty, and Freeman, "Charting an Anthropology of the Middle Classes," 19.
61. Fraser, "Can Society Be Commodities All the Way Down?"
62. Easterly, "The Middle Class Consensus and Economic Development."
63. BACEN, "Action Plan to Strengthen the Institutional Environment: National Partnership for Financial Inclusion."
64. OECD, *Advancing National Strategies for Financial Education*, 75.

65. Grün, "Financeirização da Esquerda?"
66. CDA/WA, LCA, CDCA, and CRA are forms of credit aimed at agribusiness. Income from CRAs and LCAs, for example, are tied to the Interbank Deposit Rate (Certificado de Depósito Interbancário, or CDI), which, in turn, hovers around the level of the Selic interest rate, a major instrument of monetary policy in Brazil. Decisions in monetary policy thus directly affect the profitability of these assets, which opens up space for the financial market to influence such decision-making. LCIs also have their income linked to the CDI, but are designed for the housing sector.
67. Brazilian public debt securities may be fixed or floating. The fixed securities are recommended for those who bet that the fixed rate will be higher than the country's base interest rate (the Selic rate). They produce predefined profits and nominal income. That means that inflation must be discounted in order to gauge the true income gained from the investment. Floating securities, however, are corrected by an index that may be either the base interest rate (the Selic rate) or the rate of inflation (IPCA). The profitability of these securities is thus comprised of an interest rate defined at the point at which they are purchased, plus the variation of one of the two indices mentioned above.
68. CPRs are another form of credit designed for agribusiness. LIGs were created by President Dilma Rousseff via Lei 13.097/2015 and are meant to raise funds for the housing sector.
69. Selic Prime Rate, according to the Brazilian Central Bank. Global-Rates, "BACEN SELIC Rate."
70. Mattos, "Emprego Público nos Países Desenvolvidos."
71. It has been estimated that spending at all levels of government on compensation for civil servants stood at 4.5 percent of GDP in 2013, a percentage which has remained relatively stable over the years. Betat, "Gastos com pessoal da União."
72. IPEA/Banco Mundial "Brasil: Acesso a Serviços Financeiros."
73. For 93.3 percent of those surveyed, their reason for not having a checking account in a bank was similar: they lacked sufficient income (IPEA/Banco Mundial, 242, table 3.8). Note that the 2012 CNI-IBOPE survey on financial inclusion estimated that, for 60 percent of the adult population lacking checking or savings accounts, the main reason remained a lack of financial means.

There has been a clear improvement over the past ten years, in other words, but scanty, unstable income still stands as the greatest barrier to opening accounts, despite the existence of simplified accounts.

74. Lei no. 10.820.
75. Trumbull, "Credit Access and Social Welfare."
76. Other social insurance or assistance benefits cannot serve as collateral, in keeping with Normative Ruling n. 28, May 16, 2008.
77. The Provisional Measure of July 10, 2015, signed by three Ministers (Finance, Planning, and Social Security) and forwarded on to then-president Dilma Rousseff, alleged that it was "necessary to stimulate the moderate expansion of the credit market at a time of significant contraction, within a modality of low risk for financial institutions." Brasil, "Medida provisória 681/2015."
78. Brasil, "Instrução Normativa no. 28." See article 13, clauses I and II. Accessed on May 20th.
79. Here, a digression is unavoidable. As this book was being prepared, an embezzling scheme was discovered which operated precisely through the mechanisms of consigned credit. In June 2016, an investigation by the Federal Police and the Public Prosecutor's Office unearthed a fraudulent operation in which each payment made by borrowers in the federal civil service was charged an additional administrative fee on the order of 0.85 Reais. Over the course of six years, this produced a sum of over R$ 100 million, or US$ 30.1 million. All this was allegedly overseen by the Ministry of Planning, which in 2009 instituted a rule tasking itself with controlling such payments so as to keep abusive credit and loan payments from deducting more from public sector workers' paychecks than stipulated by law (30 percent). For more information, see Vieira and Casado, "Fraude investigada pela Custo Brasil."
80. All employers or service contractors must collect 8 percent of paid remuneration on a monthly basis to feed into the FGTS belonging to each worker or service provider. The FGTS system was created in 1966 by the military regime, ensuring that workers in the formal sector would have access to a fund in case of arbitrary dismissal. Earlier, such workers were only protected from arbitrary firings if they had attained "decennial stability." The creation of FGTS led to increased turnover, and dismissal at any point for any reason

became possible, which wound up hurting the working class. They, in turn, with low salaries that effectively impeded them from feeding savings accounts of their own, came to lean on FGTS as a savings scheme.
81. Assis, "Crédito Consignado."
82. This explains why there was a rule (in place until very recently) requiring civil servants to have checking accounts in public banks in order to receive their paychecks.
83. Assis, "Crédito Consignado."
84. In 1999, BACEN created the *correspondent* as an institution, which allows banks to offer limited banking services (deposits, payments, and limited credit services) via non-financial companies. Financial responsibility, however, remains with the financial institution. IPEA, "Brasil: Acesso a Serviços Financeiros."
85. It may be appropriate to recall that the Federative Republic of Brazil contains 5626 municipalities and 26 states.
86. A 2016 interview with the largest private bank in the country confirmed that 70 percent of consigned credit borrowers are either retirees covered by the INSS (60 percent) or civil servants (10 percent), while 30 percent are salaried employees in the private sector.
87. BACEN, "Relatório de Inclusão Financeira," 85, table 2.5.3.1.
88. ABECS, "Time Series Database."
89. Barr, *Economics of the Welfare State.*
90. ANEFAC, "Time Series Database" (all modalities of personal credit).
91. BACEN, "Time Series Database."
92. This observation is important, in that the market, when analyzing default figures, fails to consider the total portion of household income compromised by debts—that is to say, there is no analysis of total debt owed to the financial sector. It is quite common for a household or an individual to have racked up debts at several financial institutions at the same time.
93. BACEN, "Relatório de Inclusão Financeira," 85, table 2.5.3.2.
94. Ibid., 123, table 3.3.4.
95. Microcredit was initially introduced in Brazil under Fernando Henrique Cardoso, first in the hands of NGOs, and from 1999 onwards, as a product of the banking system. Lula's administration would bring the creation of a federal microcredit program under

the supervision of the national Monetary Council. See Hermann, "Liberalização e Desenvolvimento Financeiro," for a detailed analysis on two distinct modalities of microcredit in Brazil: either as a tool to combat poverty or as a mechanism to underwrite entrepreneurship among low-income groups (credit not to survive but rather to develop and reach upward mobility). One of Hermann's findings is that the former prevailed in Brazil, despite not being really substantial; it is as if the tool had yet to take off.

96. Lei 10.735/2003.
97. BACEN, "Time Series Database."
98. Dimsky, "Exclusão e Eficiência."
99. Indeed, the World Bank Report "Finance for All?" states that the use of microcredit for consumption purpose ranges from 35 to 45 percent of a loan. Honohan, Beck, and Demirgüç-Kunt, "Finance for All?," 125.
100. This excludes agricultural credit (for family farmers as well as agribusiness).
101. *Valor Econômico,* "Desemprego Amplia Busca pelo Microcrédito."
102. In theory, Bolsa Família beneficiaries would be granted access to mortgage loans, life insurance, capitalization, and savings. While savings accounts were in fact created, with 2.3 percent of family beneficiaries receiving this service, the rest of the financial inclusion mechanisms failed to reach more than 0.3 percent of these families by 2010. Ultimately, the adherence to the program would be very low.
103. The Central Bank has yet to make its latest report on this issue public.
104. One of the largest costs of the municipality has long been of providing funeral services for the poorest.

Annex

Summary of Financial Market Income Tax

Administration	*Year*	*Financial assets and investment funds*	*Exemptions*	*Foreign investor*
FHC I	1995	Fixed income[a]: 10% of income withheld at source	Income on fixed income portfolio funds	Fixed income and equities investment and gains from redeemed mutual funds units: same rates
		Equity income: 10% of liquid gains	Savings and interest for mortgage-backed securities	
		Mutual funds: 10% of gains from redeemed units;	Gains from redeemed mutual fund units	
	1996	Fixed income: 15% of income withheld at source	Gains from redeemed mutual fund units	Same tax policy in effect
		Equity income: 10% of liquid gains		
		Mutual funds: 15% of gains from redeemed fund units for fixed income; 10% for equities	Savings and interest for mortgage-backed securities	
	1997	Same tax policy in effect	Liquid equity gains below R$ 4,143.50	Swaps and equity income: 10%
FHC II	2001	Fixed income: 20% of income withheld at source	Same exemption as 1997, in addition to:	Fixed income investments: 15%
		Equity income: 20% of liquid gains and 1% of 1 day-term capital gains	Income and liquid gains from mutual fund portfolios	Capital gains from the above items
		Mutual funds: 20% of gains from redeemed fund units for fixed income	Interest received by mutual fund portfolios	
			Mutual fund shareholders, whose funds are invested in the purchase of stocks of other mutual funds	

Lula I	2004	Fixed income: Regressive rates witheld at source, in accordance with the duration of the investment, from 22.5% (until 180 days), 20% (between 181 and 360 days), 17.5% (from 361 to 720 days) or 15% (above 720 days)	Income gained from LH[b], CRI[c] and LCI[d]	-
		Equity income 15% of liquid gains +0.005% withheld at source; and 1% of 1 day-term capital gains +20%of 1 month-term capital gains	Liquid gains by individuals in the liquidiation of stocks and gold that do not exceed R$ 20,000.00	
		Mutual funds[e]: 22.5% (until 180 dias); 20% (between 181 and 360 days), 17.5% (from 361 to and 720 days) or 15% (above 720 days) for long term funds; 22.5% until 180 dias), 20% (above 180 dias) for short term funds		
		Investment funds in stocks (whose portfolios are comprised of 67% in stocks): 15%		
	2006	Same tax policy In effect	Same exemptions in effect	Public treasuries: rate 0
Lula II	2010	Same tax policy in effect	Same exemptions in effect, in addition to	Mutual funds in stocks, swaps and equities: 10%
		Interest on personal capital in equity funds: 15%	Mutual fund equities dividends: 0%	Other cases (including fixed income): 15%
			Income from CDA[f], WA[g], CDCA[h], LCA[i] e CRA[j]	Capital gains in investments from the above listed items: exempted
			Income and liquid gains from interest on personal capital (from mutual fund portfolios)	Income from investments in FIP[k], FIC-FI[l] e FIEE[m]: rate 0
				Public treasuries: rate 0

continued

(continued)

Administration	*Year*	*Financial assets and investment funds*	*Exemptions*	*Foreign investor*
Dilma I	2012	Same tax policy in effect, with the following exception: Income on infrastructure debentures (FIP-IE) and research, development and innovation(FIP-PD&I): 0%, for individuals; 15% for corporations	Same exemptions in effect	Income from funds with 85% incentivized debentures or FIC-FI with 95% of fund units: rate 0 Income from redemption of fund units FIP-IE and FIP-PD&I: 15% For gains earned in the liquidation of mutual fund units: 0% for individuals, 15% for corporations
Dilma II	2015	Same tax policy in effect	Same exemptions in effect	Same exemptions in effect, in addition to: Income from redemption of equity fund units [n]: exempt Income from LIG[o], CPR[p]: exempt Income from individuals in the liquidation of assets issued by select corporations[q]: exempt until 2023

Source: Instruções Normativas da Receita Federal e Leis Brasileiras

IN SRF 43/1995, LEI 8981/1995, IN SRF 2/1996, IN SRF 72/1997, IN SRF 25/2001, IN SRF 487/2004, LEI 11312/2006, IN SRF 1022/2010, IN SRF 1236/2012, IN SRF 1585/2015

[a]Swaps are taxed in the same way as fixed income except for in 1996, when the swaps rate was 10%.

[b]Letras Hipotecárias

[c]Certificado de Recebíveis Imobiliários

[d]Letra de Crédito Imobiliário

[e]Since 2004, mutual funds were classified as either short or long-term, with the short-term delimited as 365 days or less and the long-term delimited as more than 365 days

[f]Certificado de Depósito Agropecuário

[g]Warrant Agropecuário

[h]Certificado de Direitos Creditórios do Agronegócio

[i]Letra de Crédito do Agronegócio

[j]Certificado de Recebíveis do Agronegócio

[k]Fundo de Investimento em Participações

[l]Fundo de Investimento em Cotas de Fundo de Investimento

[m]Fundo de Investimento em Empresas Emergentes

[n]If the company is public, at least 67% of stocks is not subject to income tax, with minimum duration of 180 days and designated as FIA-Mercado de Acesso

[o]Letra Imobiliária Garantida

[p]Cédula de Produto Rural

[q]Must possess market value less than 700 million Reais, gross revenue of less than 500 million Reais, and primary issuance corresponding to at least 67% of stocks issued by the company

CHAPTER 4

Connections Between the Social Protection System, Taxation, and Financialization

The Financing of Social Policy

The question at hand is to what extent the processes of financialization will work against or complement social policies and potentially reconfigure the social protection system instituted in 1988 by the new Constitution, which introduced a wide range of provisions and entitlements. Such queries arise as the actuarial logic of private insurance marches onward and as credit comes to stand as a factor determining access to welfare and certain public goods and services—the supply of which is increasingly commodified, due to its origin in the private sector.

Until 1988, Brazil had a single public social security system in place, a limited regime which only covered workers in the formal sector and a handful of other categories, such as civil servants.[1] These few would have access to retirement funds during old age and to public hospitals if they followed the rules governing the contributory system. There was no unemployment insurance as it exists today[2] (if fired without just cause, workers in the formal sector could withdraw funds from a FGTS account[3]). There were no poverty-mitigation mechanisms; rather, a handful of initiatives focused on behavioral correction for groups targeted for intervention by social assistance (generally single mothers and juvenile delinquents). When stricken by illness, the poor depended on the benevolence of certain philanthropic institutions or the charity of individuals, if they were so lucky. Primary school enrollment rates were modest, although rising, and

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universities (whether public or private) were the province of the elites and the children of the upper-middle class, with rare exceptions.

The Constitution of 1988 was a watershed moment in Brazil in terms of social rights. With it, the country would be transformed. Articles 194 and 195 of the Constitution implemented Social Security, comprised of healthcare, pensions, welfare schemes, and unemployment insurance (Article 201). Under the Citizen Constitution, as it is known, healthcare[4] is defined as universal and free of charge; private institutions may work to complement the Unified Health System (Sistema Único de Saúde, or SUS), in keeping with directives established by the public system[5]; social insurance,[6] including unemployment insurance,[7] is contributory and guarantees a relatively broad array of types of coverage in cases of forced or definitive inactivity; welfare schemes,[8] meanwhile, introduce the right to a minimum survival income for the demonstrably poor, an income subject to means test. Poverty had never before been the direct target of public policies, meriting protection by the State.

Other equally important rights were written into the letter of the law: the right to housing and the social function of the city and urban property[9]; the social function of agricultural property, and the promotion of agrarian reform[10]; food security; the right to free and secular education[11] at all levels (daycare and preschool, primary, middle, and high school, college, and youth and adult education); and the right to security, to say nothing of the Constitution's considerable expansion of labor and union rights. Eduardo Fagnani and Flavio Tonelli Vaz write that the Constitution of 1988 inaugurated "a social protection system inspired by the values of the social welfare state" as seen in Europe.[12] Finally, in keeping with international standards, the Constitution reaffirmed the classical model of tripartite financing for social security. Should the National Treasury need to transfer fiscal resources to the General Social Insurance Regime (which is contributory), one might argue that the situation would not constitute a "deficit," but rather a follow-through of a constitutional responsibility.[13]

To shore up the social order outlined in the Constitution, the members of the Constituent Assembly established a specific budget for Social Security (social insurance, healthcare, social assistance and unemployment insurance), set apart from the fiscal budget (revenues from which would go toward financing other social rights, such as education, sanitation, housing, etc.).[14] The idea was to ensure a measure of fiscal autonomy for Social Security by feeding it with certain exclusive revenue streams drawing on a variety of sources; under the military regime, the meager

resources available for social policy had often been looted in order to feed economic initiatives.

With this in mind, the Social Security budget draws off contributions from employees and employers and from voluntary contributors (self-employed workers, idle working-age adults, etc.), in keeping with the logic of contributory social security. It is also fed by so-called social contributions, which include taxes on consumption (COFINS[15] and CSLL[16]), reflecting a society-wide contributive effort, or on company earnings (PIS/PASEP[17]). Finally, there are also contributions from lotteries and revenue from the ministries that make up the various sectors of Social Security, although these are modest sums. All of these revenue sources are tied to Social Security and supply it exclusively.

It is interesting to note that, by constitutional stipulation, revenue from the social insurance contributions of employees and employers, as well as those of other contributors, is allocated solely to paying social insurance benefits and unemployment insurance, and may not be used toward healthcare or assistance spending, nor to any other end. The other revenue streams, meanwhile, may finance any, and all, of the three areas that make up the Social Security system.

Since its creation, the Social Security budget has never registered a fiscal deficit, as Denise Gentil,[18] Eduardo Fagnani, and Flavio Vaz[19] point out. Table 4.1 traces the evolution of Social Security's revenues and spending in the period 2005–2015.[20] Although the system functions on a unified budget, we separate out the two largest sources of revenue that feed into it (contributions to social insurance and indirect social contributions) so as to clarify how social policy served as an adjustment measure not just during the crisis, but also throughout the cycle of economic expansion.

Table 4.1 makes it clear that throughout the recent cycle of growth, Social Security revenues rose steadily through 2013, with the exception of 2009 (when the country saw negative growth, in the wake of the international crisis), falling again in 2014 (this time, as a consequence of the economic slowdown that would lead into a recession starting in 2015). In 2015, total revenues for Social Security would sink back to 2010–11 levels. The rosy years of rising revenues reflect both the considerable growth of formal employment and the remarkable expansion of consumption. From 2005 to 2010, Social Security revenue grew at a rate of 3.9 percent p.a., only to fall to 0.3 percent p.a. over the period 2011–15.[21] This helps to explain why it shrank as a portion of GDP, from 13.35 percent in 2005 to 11.76 percent in 2015 (Table 2.2), mirroring the larger eco-

Table 4.1 Brazil, social security budget, 2005–2015 (billions of Reais, constant values of 2015)

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
1. Total revenues	**542.77**	**551.74**	**609.34**	**618.02**	**609.13**	**682.16**	**741.09**	**786.49**	**812.08**	**809.84**	**694.40**
1a. Contributions to social insurance	203.09	218.89	241.25	268.68	282.68	315.61	345.69	374.16	395.58	413.33	352.55
1b. Social contributions – indirect taxation	315.80	310.03	343.40	323.16	301.12	341.42	368.63	383.32	395.47	371.73	319.08
1c. Other revenues	23.89	22.82	24.69	26.17	25.32	25.13	26.77	29.01	21.03	24.78	22.76
2. Total spending	**406.26**	**442.79**	**485.69**	**512.24**	**559.08**	**601.94**	**634.51**	**677.14**	**716.73**	**744.38**	**683.06**
2a. Contributory benefits (except unemployment benefits)	273.10	293.43	313.69	329.24	349.61	381.56	395.67	417.92	445.27	464.23	436.09
2b. Other social security expenditures[a]	133.16	149.36	172.00	182.99	209.48	220.38	238.84	259.21	271.46	280.15	246.97
Unemployment benefit and job allowances	21.30	26.41	30.84	34.03	42.08	43.47	48.02	52.74	58.07	61.04	48.18
Universal healthcare	64.65	72.21	78.69	82.68	90.50	92.81	101.69	105.72	106.55	110.98	102.21
Non-contributory welfare benefits	30.16	34.33	38.51	43.17	47.51	53.20	58.88	67.15	72.18	75.09	68.72

BPC	17.48	20.50	23.14	25.73	29.06	33.11	35.31	40.03	42.24	44.28	41.80
Bolsa família/ anti-poverty programs	12.68	13.82	15.37	17.44	18.45	20.09	23.57	27.12	29.94	30.81	26.92
3. Social security balance (1–2)	136.51	108.95	123.65	105.78	50.05	80.22	106.58	109.35	95.35	65.47	11.34
4. Untying of federal revenue (DRU)[b]	60.86	59.62	66.05	64.63	60.22	68.28	73.73	76.66	79.09	74.35	63.82

Source: ANFIP, Análise da Seguridade Social (various years)

[a] Includes federal expenditures on public health and welfare benefits; for 2006, missing data for "expenditures from Social Development Ministry"

[b] Drawn from gross social contributions (1b) only. Constant December 2015 Reais, adjusted by consumer price index (IPCA), with annual indexation departing from January

US$ 1 = R$ 3.87 (average for December 2015)

nomic downturn. How to explain falling revenues, if formalization and consumption on the rise should have bolstered the system's funds?

When one analyzes the behavior of the two largest funding sources for Social Security—again, contributions to social insurance[22] and indirect social contributions levied on profits and earnings, burdening consumption—it becomes clear that they develop differently over the period in question. While compulsory social insurance contributions grew steadily in real terms through 2014, social contributions appeared more volatile, as if the transition to the mass consumer market had been considerably unstable, leading to erratic fluctuations in tax revenues. In fact, Table 4.1 reflects a recurrent practice on the part of Workers' Party administrations—namely, broadening tax breaks for capital. Social contributions were the most affected, but other Social Security-exclusive revenue streams would also be slashed.

Tax exemptions and tax credits had become a major instrument of industrial policy while Luiz Inácio Lula da Silva was in office.[23] A flurry of taxes designed to finance Social Security were cut, including COFINS, PIS-PASEP, and CSLL. During Lula's first administration (2003–2006), tax expenditures on COFINS went up by an average of 56 percent per year, PIS-PASEP by 61 percent per year, and CSLL by 46 percent per year. Over his second term (2007–2010), those figures stood at 31 percent for COFINS, 26 percent for PIS-PASEP and 29 percent for CSLL. According to Ana Carolina Cordilha, "four of the six taxes that were most aggressively cut during the period were contributions to Social Security,"[24] including payroll exemptions.

Under Dilma Rousseff, there would come a change in scale in terms of the volume of payroll exemptions, as part of what was dubbed a "sliced-up" tax reform, one that would be "easier to debate and to pass" in the legislature.[25] Among the four measures passed in March 2011 with the aim of stimulating economic growth, two of them had to do with fresh tax expenditures for PIS and COFINS, as well as INSS employer tax exemptions on the payroll,[26] both revenue sources for Social Security. The measures were initially designed to affect four specific sectors[27] which were particularly sensitive to the exchange rate and international competition. Before long, tax incentives aimed at stimulating industrial production and exports would expand to 56 sectors, being made permanent and taking in non-tradable sectors,[28] without indicating any conditions or targets related to keeping up employment levels, salaries, or improving competitiveness.

These fiscal incentives were activated in Brazil after the Workers' Party came to power, with serious consequences for the Social Security budget that would ultimately compromise the financing of social policies. Cordilha shows that not only did tax breaks take off during Lula's second administration, in the wake of the increased number of tax exemptions granted by the government, but the volume of these waivers also increased in absolute terms and as a proportion of GDP and federal tax revenue.[29] Throughout this process, she demonstrates, tax exemptions clearly and increasingly focused on contributions directly tied to the funding of Social Security. Hence, the reduction in so-called labor costs, with the aim of stimulating economic activity, wound up undermining an array of policies designed to support workers and the most vulnerable groups in society as a whole (in terms of the removal of budgetary resources from social assistance and healthcare).

According to Gentil, between 2007 and 2015, when the granting of tax breaks would reach its zenith, racking up R$ 1.9 trillion[30] (US$ 500 billion) in federal waivers (tax credits, payroll, and tax exemptions) over the period, the funds funneled out of Social Security revenue came to 45 percent of the total, or R$ 872 billion (US$ 225.3 billion).[31] For a sense of scale, that total represents 130 percent of all Social Security spending for the year 2015.

But the slashing of the Social Security budget went far beyond tax expenditures. Since 1994, the budget had been steadily deprived of a significant chunk of its revenues. Table 4.1 indicates that between 2005 and 2015, the Unbinding of Federal Revenue (Desvinculação da Receita da União, or DRU), removed approximately R$ 747.3 billion (US$ 193.1 billion) from the Social Security budget, funds which were shifted over to the fiscal budget—clear evidence that Social Security was running nothing close to a deficit.

The DRU is the latest incarnation of the Emergency Social Fund (Fundo Social de Emergência, or FSE), created in 1994 by Fernando Henrique Cardoso, then Finance Minister. The fund allowed the federal government to carry out a uniform cut of 20 percent from all budgets via the unbinding of taxes and contributions, breaking with the legal norm stipulating that resources from certain sources had to be applied to the program, policy, or end to which they were connected. The FSE was meant to be temporary,[32] a stopgap to help boost the Plano Real's push for monetary stabilization. In practice, it was substituted in 1996 by the Fiscal Stabilization Fund (Fundo de Estabilização Fiscal, or FEF), and in 2000

by the DRU, which has been extended three times since then (through 2015), thus diverting massive sums from the social realm to be applied freely by the economic sector.

Worse, the approval of yet another extension of the DRU in 2016, this time at the request of then-interim president, Michel Temer,[33] raised the percentage of funds to be diverted to 30 percent[34] through 2023. This makes it even more difficult to imagine that the public provision of goods and services can possibly meet demand in the short or medium term, whether in quantity or quality. Moreover, this repeated sequestration of funds will doubtless lead to a recurring deficit for Social Security—this in the midst of a severe economic recession.

Table 4.1 indicates that, despite the magnitude of the revenues from multiple sources being siphoned away from Social Security, its accounts had remained in the black prior to the levying of the DRU. The same table confirms that in 2009, 2014, and 2015 alone, the value of the DRU exceeded the positive balance for Social Security. For those years, the government was obliged to return part of the sequestered resources to the Social Security budget[35] (the opposite, meanwhile, was true for years with comfortable budget surpluses).[36]

Social Security spending has continued to rise, against the grain of revenues, which have been diverted to serve ends other than social protection. Expenditures grew steadily until 2015, when they saw the first downturn, the result of austerity measures adopted under Dilma Rousseff, which focused on cutting benefits (unemployment insurance and death pensions, among others) and shifting eligibility rules, given the increase in involuntary inactivity. A closer look at benefits reveals that in 2015, expenditures shrank back to levels lower than those seen in 2012–13 on all fronts, including spending on welfare programs (Benefício de Prestação Continuada and Bolsa Família), which certainly should not have been the case if they had continued to function in an anti-cyclical, poverty-mitigation capacity.

Table 4.2 gives a sense of the weight of revenues and expenditures untied from Social Security as a portion of GDP. As a whole, they go from 10 percent of GDP in 2005 to 11.57 percent in 2015, and against the tide of revenues, the shrinkage of which was explained above. It is striking that the fall in revenues outpaced the increase in spending.

One may observe that pension benefits take the lion's share, at 7.3 percent of GDP in 2015, having kept up a proportion between 6.4 and 6.9 percent throughout the decade, in a fairly predictable fashion. With this in

Table 4.2 Brazil, social security budget, 2005–2015 (as % of GDP)

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
1. Total revenues	**13.4**	**12.9**	**13.0**	**12.1**	**11.8**	**11.8**	**12.1**	**12.4**	**12.2**	**12.1**	**11.8**
1a. Contributions to social insurance	5.0	5.1	5.2	5.3	5.5	5.5	5.6	5.9	6.0	6.2	6.0
1b. Social contributions—indirect taxation	7.8	7.3	7.3	6.3	5.8	5.9	6.0	6.0	6.0	5.6	5.4
1c. Other revenues	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.3	0.4	0.4
2. Total spending	**10.0**	**10.4**	**10.4**	**10.0**	**10.8**	**10.4**	**10.3**	**10.7**	**10.8**	**11.1**	**11.6**
2a. Contributory benefits (except unemployment benefits)	6.7	6.9	6.7	6.4	6.8	6.6	6.4	6.6	6.7	6.9	7.4
2b. Other social security expenditures[a]	3.3	3.5	3.7	3.6	4.0	3.8	3.9	4.1	4.1	4.2	4.2
Unemployment benefit and job allowances	0.5	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.8
Universal health care	1.6	1.7	1.7	1.6	1.7	1.6	1.7	1.7	1.6	1.7	1.7
Non-contributory welfare benefits	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.1	1.1	1.1	1.2
BPC	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Bolsa família/ anti-poverty programs	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.5	0.5	0.5
3. Social security balance (1–2)	3.4	2.6	2.6	2.1	1.0	1.4	1.7	1.7	1.4	1.0	0.2
4. Untying of federal revenue (DRU)[b]	1.6	1.5	1.5	1.3	1.2	1.2	1.2	1.2	1.2	1.1	1.1

Source: ANFIP, Análise da Seguridade Social (various years)

[a] Includes federal expenditures on public health and welfare benefits; for 2006, missing data for "expenditures from Social Development Ministry"

[b] Drawn from gross social contributions (1b) only

mind, it may be said that these expenses did not mushroom in a way that would call for emergency measures in order to keep a lid on pensions and social insurance benefits. Federal expenditures on the public healthcare system likewise remained steady over time, accounting for around 1.7 percent

of GDP over the period, while spending on unemployment insurance and poverty-fighting programs expanded as a portion of GDP throughout the decade, practically doubling in size. Even so, the entire array of means-tested welfare transfers represents an extremely modest slice of GDP, on the order of 1.1 percent as of 2015.

Finally, it should be emphasized that, with the exception of healthcare, expenses for which are in kind, 85 percent of Social Security spending is in the form of cash transfers, whether contributory or non-contributory, a percentage which remained constant over time.

At this point, it seems appropriate to lay out how Social Security functions, analyzing each leg of the protection system.

Social Insurance: The Strengthening of Public Regimes Despite Tax Breaks, the Unbinding of Revenues, and Incentives to the Complementary Fully Funded Regime

Brazil has two public social insurance regimes in addition to the complementary fully funded regime, whose use is still voluntary. Both of them were introduced in the 1988 Constitution.

The General Social Insurance Regime (Regime Geral da Previdência Social, or RGPS) provides pensions and other contributory benefits for workers in the private sector, and is operated by the National Social Security Institute (Instituto Nacional da Seguridade Social, or INSS); it falls under the umbrella of Social Security. The Special Social Insurance Regime (Regime Próprio da Previdência Social, or RPPS), meanwhile, covers members of the military and permanently employed civil servants at all levels of government,[37] and is included in the fiscal budget (not in the Social Security budget). Finally, the 1988 Constitution created the Complementary Social Insurance Regime, served by open and closed private pension funds, a system designed to complement workers' incomes after their definitive retirement.

The RGPS is contributory and compulsory for workers in the private sector covered by the Consolidated Labor Laws (Consolidação das Leis Trabalhistas, or CLT),[38] but also takes in a broad range of voluntary policyholders (idle working-age adults, the self-employed, individual micro-entrepreneurs, and rural producers). It is pay-as-you-go, with rules that cover both rural and urban dwellers.

The contribution rate is 20 percent of received remuneration or any contribution between the social insurance floor (the current minimum

wage) and the contribution cap, set at R$ 5189.00 (US$ 1404.60) per month in 2016. This 20 percent is split between workers and employers; the workers' part is graduated, varying from 8 to 11 percent,[39] while the rest is the employer's responsibility. Non-salaried contributors[40] pay the full 20 percent, with the exception of Individual Micro-Entrepreneurs (Micro Empreendedores Individuais, or MEIs),[41] for whom the rate was lowered (invariably 5 percent of a minimum wage), and small family farmers, who are taxed 2.1 percent of the value of the gross revenue from the sale of their production.[42] In addition to this category of contributor, classed as "specially insured," rural social insurance includes two other forms of membership which fall under the general contribution rules for the RGPS.[43]

The array of benefits provided by social insurance is a varied one, ranging from retirement plans and pensions to paid maternity leave,[44] unemployment insurance, family allowance,[45] sick pay, accident benefits, and reclusion aid,[46] among others. The regulations vary according to the benefit and the beneficiary, but over recent years they have trended toward greater uniformity, even between the RGPS and the RPPS.

Two sorts of retirement regulations are currently in place in Brazil: one may retire by virtue of one's age or by virtue of the length of time one has contributed to the system. Retirement due to length of contribution (with no minimum age, for the time being) may happen in one of two ways: with the use of the pension factor (which is applied in the case of women who retire before age 60 and men who retire before age 65), or the 85/95 rule, which guarantees a full retirement benefit, but one scaled progressively. The rule starts at 85/95 and advances one point every two years until it reaches 90/100 in 2027; it requires a minimum length of service of 35 years for men and 30 years for women, but does not allow for the retirement benefit to be reduced.

In order to retire, current rules require that men should have a total of compulsory contribution time[47] plus age of 95 years (for women, the total is 85 years). This measure, dubbed "aposentadoria progressiva," or a progressive retirement scheme, was passed in 2015,[48] under President Rousseff's second term, as an alternative to Congress's removing the pension factor,[49] which had been introduced in 1999 under Fernando Henrique Cardoso. In taking the average life expectancy into account[50] and incorporating it into the calculation of contribution time and age, the factor sought to discourage early retirement by applying a reducer to the value of the benefit. Since life expectancy rises every year, many work-

ers came to put off their retirements so as to receive their full benefit, as opposed to a fraction of it. The result was that the average retirement age in Brazil, which had tended to be on the lower side, rose steadily over the course of the 2000s. According to DATAPREV,[51] the average stood at 58 years old in 2015, and 59.4 for men.

Another positive point of this decade of growth, thanks to the increased formalization of employment, was the rise in contributive density. From 2005 to 2014, the number of RGPS contributions rose from an average of 8.7 months per year to 9.1 months,[52] and the average replacement rate for salaried workers fell from 85 percent in 2009 to 80.6 percent as of 2014.[53]

The 85/95 formula is temporary, thus incorporating a measure of life expectancy into the calculation for the number of years needed to retire, although no set minimum age has been instituted yet. This has remained the key plank of much-touted social insurance reforms with every fresh government. The Constitution sets no minimum retirement age on the basis of contributory time, nor have subsequent reforms managed to establish one.

Retirement based on age, meanwhile, requires that men be at least 65 years old and women be at least 60. The same rule stands for rural workers, albeit modified, as they are authorized by the Constitution to retire at age 60 (for men) or 55 (for women). Urban workers who retire due to age must have made at least 180 monthly contributions and will receive a proportional benefit.

The adoption of the pension factor was one of the most important parametric reform measures since the restructuring of social insurance in 1988 and the subsequent creation of the Social Security system. It was not the only one, however. Fernando Henrique Cardoso's administration saw the first reform of the pension system[54] after the adoption of the Constitution, in 1998. In the case of the RGPS, the reform swapped out "length of service"[55] in favor of "length of contribution"; eliminated proportional retirement; disconnected benefits above one minimum wage from the indexation rule for the minimum wage; and set a nominal cap on social insurance benefits, breaking with the previous cap of 10 minimum wages.[56]

This last measure was a strategic move designed to boost adhesion to open private pension funds, still incipient and little sought-after. With the benefit cap set relatively low—the equivalent, in 2016, of R$ 5189 (US$ 1404.60), or 5.9 minimum wages (2.7 times the average labor income),[57] those workers with income above the cap turned to the finan-

cial sector in order to ensure that they would be able to receive retirement benefits more in keeping with their level of remuneration. The most immediate consequence of this measure was to compromise the principle of intergenerational solidarity, shifting revenue (from the richest, it should be stressed) to the private insurance market that should have been channeled into the public system—a regime which conservatives, meanwhile, repeatedly claim is "running a deficit." It should be noted that in 2014, according to the National Household Sample Survey (Pesquisa Nacional por Amostra de Domicílios, or PNAD), only 15 percent of the employed population earned more than the contribution cap for the INSS and RGPS. Though this is a small portion of the whole, the measure lays bare the paradox of reducing the contribution of the wealthiest to the maintenance of a sustainable, surplus-running social insurance system.

The Cardoso administration also altered the pension system for civil servants, bringing over a few changes from the RGPS reform: the incorporation of the notion of "length of contribution" instead of "length of service"; the elimination of proportional retirement benefits, in keeping with transition measures identical to those used in the RGPS; and the introduction of a minimum age for retirement for civil servants, at age 60.

In a move that struck at one of his most fundamental areas of support, however, it was Lula who would reform the RPPS, in the very first year of his administration. In 2003, he managed to eliminate full retirement benefits for those in civil service,[58] as well as making it mandatory[59] for retirees to contribute as well.[60] The taxation of RPPS retirees was implemented retroactively, affecting all beneficiaries, not only those who retired after the rule change.

The main target of the RPPS reform, however, was the standardization of the cap across the two public social insurance systems. According to the new rule, civil servants earning above the RGPS cap who opted for a complementary social insurance benefit would be able to sign up for the closed fully funded civil service pension fund. This was doubtless the most substantive shift in the RPPS reform as a whole, compromising the pay-as-you-go framework and transforming civil servants' social insurance into a hybrid system. The percentage to be contributed is defined by the employee (who may choose to pay in 7.5, 8, or 8.5 percent), with the government providing matching funds.[61] The new funded system, the Complementary Social Insurance Fund for Federal Civil Servants in the Executive Branch (Fundação de Previdência Complementar do Servidor Público Federal do Poder Executivo, or FUNPRESP-Exe) would only be

regulated under Dilma Rousseff's first administration,[62] when it began to function under the auspices of the Ministry of Planning.

Pensions in the public sector were thus radically transformed, striking a definitive blow to the still-common perception that retirement plans for civil servants in Brazil concentrate and reproduce privileges and inequalities. It should be said, however, that members of the military were not affected by the reform. Their retirement plans still include enviable and exclusive benefits, alongside certain posts in the executive branch and in state-run companies and banks (Petrobrás, BNDES, etc), which are supported by closed private systems. Looking at the sum total of advances and checks in the fight over the preservation of corporate perks, the imbalances resulting from the track record of the RPPS (especially in the pre-1998 period) still stand as a challenge to its sustainability, as Table 4.3 indicates.

Indeed, the average age of retirement for those under the RPPS is 60.7 years—higher than in the RGPS. A 2015 constitutional amendment raised the compulsory retirement age for civil servants from 70 to 75.[63] The number of RPPS retirees and pensioners (only those in the three branches of government—this figure excludes members of the military) came to approximately 3.5 million in 2014, with annual spending of R$ 131 billion[64] (US$ 33.8 billion), or the equivalent of 2.1 percent of GDP for that year.

Table 4.3 provides a rundown of the differences between the two systems for the year 2014. RPPS coverage is equal to 13 percent that

Table 4.3 Brazil, general social insurance regime (RGPS) and the special social insurance regime for civil servants (RPPS), 2014 (constant 2015 Reais)

	No. of beneficiaries[a]	*Spending on benefits*	
		R$ (bn)	*% GDP*
RGPS	25,504,821	464.23	6.9
RPPS	3,456,000	131.30[b]	2.1

Source: Ministério da Previdência, Boletim Estatístico da Previdência Social (2014) and ANFIP, Análise da Seguridade Social (2015)

[a] For the RGPS, recipients of social insurance benefits and federal social insurance charges as of December of 2014; for the RPPS, quantitative retired civil servants and federal, state, and municipal pensioners

[b] RPPS, retirement and pension proceeds; constant December 2015 Reais, adjusted by the consumer price index (IPCA), with annual indexation departing from January. US$ 1 = R$ 3.87 (average for December 2015)

of RGPS, although as a proportion of GDP, it accounts for significantly more—2.1 percent, as opposed to 6.9 percent for the RGPS. In practice, the RPPS ran a deficit of 0.7 percent of GDP in 2014 (around R$ 46 billion), which was ultimately covered with RGPS revenue.

It may be productive to locate the so-called aberrations of the social insurance system for civil servants. Table 4.4 highlights the imbalances between areas, with the legislative and judicial branches accounting for retirement benefits at levels around 25 times the average RGPS payout. Values vary massively, even within the federal civil service, ranging from R$ 7385.00 (US$ 1907.70) per month in the executive branch to R$ 28,550.00 (US$ 7357.10) in the legislative branch. Clearly, the use of RGPS revenue to cover deficits in RPPS contributions reproduces inequities across the systems, as well as strengthening an important base of political support across the three branches.

The retirement plans and pensions provided by the General Social Insurance Regime (RGPS) have been recognized as progressive.[65] Despite certain lingering distortions, Brazil was able to establish a degree of coverage for the senior population[66] that is nearly universal for those ages 65 or older, without reducing the scope of the social insurance system in the process. Around 85 percent of the elderly population is covered by social insurance or assistance benefits.[67] In 2015, nearly 28 million retirement benefits and pensions were paid out to seniors, a third of them living in rural areas. According to the INSS, 60 percent of those benefits were at the level of a single minimum wage (for rural beneficiaries, the rate rises to

Table 4.4 Brazil, average value of retirement benefits in the general social insurance regime (RGPS) and special social insurance regime (RPPS), 2015 (current Reais)

RGPS	*RPPS*				
	Executive—civil servants	*Executive—members of the military*	*Legislative*	*Judiciary*	*Prosecutor's office*
R$ 1,034	R$ 7,385	R$ 9,384	R$ 28,551	R$ 24,959	R$ 18,017

Source: For RGPS, Ministry of Social Insurance, Boletim Estatístico da Previdência Social (Dec/2015), average value of benefits issued for those in the category "previdenciários"; for RPPS, Ministry of Planning, Boletim Estatístico de Pessoal (Jan/2016), average federal spending per branch of government for those in the category "aposentados" (retirees) US$ 1 = R$ 3.87 (average for December 2015)

99 percent). As Table 4.4 indicates, the average value of an RGPS benefit is low, around R$ 1000.00 (US$ 258.30) per month, close to the minimum wage. This may serve to discourage contributions from those with average incomes above the floor in the public system; it will weaken the system in the long term, as it lets resources drain away to complementary private schemes.

Rural retirement plans and pensions, independent of full previous contributions; the universal social insurance floor tied to the minimum wage; and the existence of a cap for contributions and benefits, all pillars of the RGPS, had a significant effect in pushing the Gini index for seniors to a rate lower than that of the population as a whole, when calculated in terms of per capita household income. It is no coincidence that the elderly make up just 1 percent of the population living below the official poverty line.[68]

This is an extremely positive result—in terms of coverage in Latin America, only outdone by Bolivia's performance after the creation of Renta Dignidad in 2007.[69] Camila Arza has examined how alternative retirement and pension structures profoundly modified the social security systems of countries such as Argentina, Bolivia, Brazil, and Chile, which were able to institute a high degree of protective coverage for their elderly, outside an exclusively contributory rationale.[70]

Brazil stands apart in this respect, however, having blazed a path of its own. Unlike Argentina and Chile, Brazil and Bolivia adopted universalizing principles that led to the reconfiguration of the right to a replacement income in situations of inactivity, whether for the poor or for workers with an insufficient record of contributions. But while the Bolivian model has embraced the notion of a flat rate, or universal minimum benefit for retirees, as supported by Evelyne and John D. Stephens,[71] with clearly favorable results in terms of the promotion of citizenship, Brazil's differential lies in providing a standard minimum value for the benefit in question, tied to the minimum wage. Instead of standing as a fraction of a given level of remuneration (the idea of a minimum subsistence income), the Brazilian model provides an equal right to socio-economic security in periods of inactivity for beneficiaries of varying statuses (whether in terms of income or socio-occupational trajectory). It thus overcomes the old cleavages of a highly stratified regime, significantly cuts down on the gender asymmetries that characterize the job market, and manages to avoid one of the major pitfalls of social insurance (where access would be limited to full contributors). Instead of buying into the idea of safety nets, which

would be subject to the confirmation of an income deficit, or subscribing to the notion of a basic floor, Brazil stands out in terms of breaking with poverty-fighting cash transfers and Bismarckian logic *sensu stricto*, establishing a floor above the survival level.

In terms of pensions and social insurance benefits (RGPS), Brazil has moved toward growing and extensive coverage, which guarantees an array of equivalent and standard rights for those of varying statuses, conditions, and contributory histories. By combining contributions and benefits, it promotes greater inclusion, progressivity, and redistribution. The norms and conventions which were slowly adopted in the effort to expand the system's coverage led to an increase in both the number of contributions and contributive density, stimulated by appropriate incentives. The efficiency and equity of the system grew steadily through 2014, when the economic recession brought a break in the trend. Even so, the public pay-as-you-go system has seen stiff competition from complementary funded schemes, which suck funds away to the financial sphere. This is due in large part to income tax credits for to those on fully funded plans and the extremely low maximum contribution established for both the RGPS and the RPPS.

Since the mid-1990s, two fully funded pension regimes have been introduced to the market: the Free Benefit Generator Plan (Plano Gerador de Benefício Livre, or PGBL) and the Free Benefit Generator Life Plan (Vida Gerador de Benefício Livre, or VGBL). While the former is indeed a pension, seeking to accumulate a replacement income in the long term, the second is more like an insurance policy, including life insurance and personal accident insurance in a single contract. The major difference between these two forms of fully funded retirement plans lies in the way in which each is treated in terms of tax collection. The PGBL allows one to deduct annual contributions to the plan from the base value used to calculate individual income tax, up to 12 percent of taxable gross income.

This deduction does not mean that sums paid into the PGBL are income tax-free; the total amount redeemed or income received on payout will be taxed. The rate in this case is regressive, falling as the investment period increases. After ten years of contributions to the fund, any payout will be taxed 10 percent, as opposed to 35 percent if the transaction is made after less than two years. A period of ten years and up thus offers a real tax waiver of 2 percent on the accumulated funds, which is not insignificant. In the short term, saving by reducing taxation on up to 12 percent of gross income is a considerable incentive.

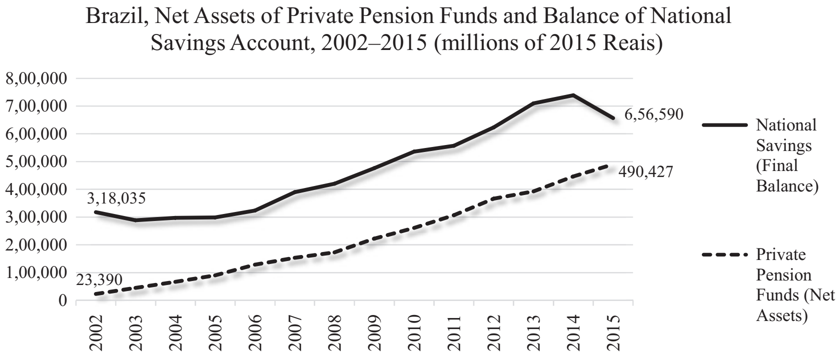

Fig. 4.1 Brazil, net assets of private pension funds and balance of national savings account, 2002–2015 (millions of Reais as of 2015) [*Source*: ANBIMA (2016) and BACEN. Constant December 2015 values adjusted by Consumer Price Index (IPCA). US$ 1 = R$ 3.87 (average for December 2015)]

In the case of the VGBL, contributions to the plan are not tax-deductible, making it more convenient for individuals whose income exempts them from income tax. In the end, taxes are only levied on returns from the plan, and not on the total contributions.

The net worth of pension funds has grown significantly, as may be seen in Fig. 4.1, going from R$ 23 billion (US$ 5.9 billion) to nearly R$ 500 billion (US$ 129.2 billion) over the course of 13 years. Today they represent 16.4 percent of the total net worth of the investment fund industry,[72] as opposed to 2.9 percent in 2002,[73] keeping up positive performance even amidst the recent turbulence that led other sorts of funds to lose value. In 2015, pension funds were the only ones to register a net inflow.[74] Even savings accounts, which had tended to show a positive balance since 2006, saw their balances fall starting in December 2014 (see Fig. 4.1). Pension funds became a more profitable option, in part because of their differential in terms of income taxation.

It seems evident that the various policies designed to stimulate private pension funds have been effective, with the segment tending to grow and increase in strength, thanks to both regulatory changes (in terms of more tax incentives) and the risk that already-announced additional reforms to the public pension system may make social insurance less attractive for those with higher incomes. Since civil servants are obliged to sign up with the fully funded pension scheme FUNPRESP, the net worth of this sort

of investment will grow even more quickly, simultaneously weakening the RPPS budget in the long term, since the system will still be paying out benefits above the cap for many years, while revenue will tend to fall.

Unemployment Insurance: Boosting Workforce Turnover, Given Increased Flexibility on the Job Market

The creation of a broader form of unemployment insurance in 1988[75] came in response to a long-standing demand perennially on the table in negotiations with unions. It was incorporated into the public employment system, as laid out in the Constitution.[76] Unemployment insurance is paid solely to salaried workers (including domestic workers) in case of involuntary unemployment, as well as to fishermen during the off season and workers who can prove that they were rescued from a forced labor regime, or conditions analogous to slavery.[77] Brazil's Constitution sets a floor for this benefit equivalent to the national minimum wage.

This temporary financial assistance to workers is granted for either three or five months, depending on the number of months worked in the 36 months preceding the firing.[78] The longer the period of employment and contributory time, the more months are covered. The value of each payment is calculated based on the average of the worker's salary across the three months preceding his or her firing, but is capped at R$ 2038.00 (US$ 551.60) per month; workers earning more will only receive payments at the level of the cap. Domestics, fishermen, and rescued workers receive the minimum wage. The average value of each monthly unemployment insurance payment for workers in the formal sector stood at 1.3 minimum wages as of 2015.

The rules in place since 2014 stipulate that in order to qualify for unemployment insurance, one must have contributed to social insurance for at least 18 months, in the case of salaried workers—the eligibility criteria are different for other categories of employees. Previously, just six months of contributions to social insurance had been enough to qualify one for the benefit; this was rolled back at the start of President Rousseff's second term.

Table 4.1 reveals that spending on unemployment insurance grew at surprising rates during a period of extremely low unemployment[79] and ever-increasing formalization, especially among low-wage jobs. However, as José Dari Krein and Magda Barros Biavaschi remind us, "formalization is not synonymous with good working conditions."[80] The absence of

restrictions on the conditions under which one may be fired (the employer is not obliged to justify dismissing employees and simply pays a fine), winds up reinforcing the increased flexibility[81] of the job market.

This apparent paradox is explained by the fact that most of the 20 million formal jobs created during the country's period of growth[82] were both low-remuneration (earning up to two minimum wages) and low-productivity posts, concentrated in services and employing the unskilled, with no investment in quality training. These sorts of jobs ultimately fed high turnover; and this was convenient for workers, who, while easily fired, could count on a measure of support during their search for a new job. But it was even more convenient for employers—without restrictions on firings, and given a generous supply of surplus manpower (since informality remained high), they might opt for swapping out employees instead of investing in training for them through human resources and the like. It was as if the old structural heterogeneity-producing mechanism had been dusted off and put back to work in the context of a new regime of growth.

From 2005 to 2014, the cost of unemployment insurance tripled, going from R$ 21.3 billion (US$ 5.5 billion) to R$ 61.4 billion (US$ 15.9 billion)[83]—that is, from 0.52 percent of GDP in 2005 to 0.91 percent in 2014. In 2015, when costs really should have risen, they fell, in a clearly pro-cyclical trend, in the wake of a brutal fiscal adjustment based on cuts to social benefits adopted early on in Rousseff's second term.

The real coverage rate for unemployment insurance is low if the denominator includes all those who identify themselves as unemployed and looking for work; this is because the benefit is only guaranteed to salaried workers enrolled in social insurance who have met all the contributory requirements. Even so, around 8 million received unemployment insurance in 2015.[84]

Social Assistance: Safety Nets on Varying Scales and in a Variety of Forms

The right to a minimum level of protection from the State for those living in poverty and with no legal support was, unquestionably, one of the great institutional innovations of Social Security in Brazil, completely reconfiguring the social pact then in place. For the first time, Brazilian society recognized the existence of a considerable number of excluded persons and guaranteed them the right to a conditionality-free subsistence income. The Organic Social Assistance Law (Lei Orgânica da Assistência Social, or

LOAS) first began covering poor senior citizens (age 65 or older) and the handicapped living in families with per capita household income below one-fourth of the current minimum wage. A minimum-wage benefit would come to be paid to this particular clientele starting in 1994. In 2015, the number of recipients of the Non-contributory Regular Pension (Benefício de Prestação Continuada, or BPC) stood at 4.5 million, with two-thirds of those being handicapped. As Table 4.2 reveals, spending on BPC came to 0.7 percent of GDP in 2015, having practically doubled over the past ten years.

Although both generous and opportune, the BPC's coverage was known to be exclusive. Millions of children, young people, and families who were equally destitute or even more so were left out in the cold, occasionally covered by low-efficacy assistance policies such as food drives and other palliative, one-off measures[85] with no real effect in terms of fighting poverty.

Given the severity of the situation, with half of the population living below the poverty line, Fernando Henrique Cardoso's administration focused on a scattered array of compensatory programs that sought to wipe out hunger—once again betraying an archaic understanding of the phenomenon of poverty, seen essentially as a shortage of food. During the early 1990s, massive popular mobilization made the National Campaign Against Hunger and Poverty and For Life into the watchword for the fight against poverty. Faced with the persistence of an alarming liability in terms of poverty and destitution, and in light of the positive results of municipal initiatives tying conditional cash transfers to school attendance—the case of the Bolsa Escola[86] —the government reevaluated its strategies and shifted slowly over to programs focused on cash transfers, albeit ones of limited scope and with well-defined clienteles. Many were limited regionally or by category, awaiting word that it would be acceptable to merge all of these initiatives. By the end of Fernando Henrique Cardoso's second term, in 2002, despite the creation of the Programa Bolsa Escola,[87] affiliated to the Ministry of Education, fragmentation persisted. The second year of President Lula's first term (January 2004) would finally bring the adoption of a national poverty-fighting policy, concentrated in the Programa Bolsa Família and now on an adequate scale.

As of the final trimester of 2015, Bolsa Família was used by 13.9 million families,[88] a figure which has remained relatively stable since 2012, coming to 0.46 percent of GDP (Table 4.2), or 4 percent of all Social Security spending. The program is less costly than BPC, given the differ-

ence in the average benefit—which, in the case of Bolsa Família, comes to R$ 163 (US$ 44.10) per month, per household. The household benefit is subdivided as follows:

a. Basic benefit of R$ 77 (US$ 20.80) paid to extremely poor families (living below the indigence line, which also stands at R$ 77).
b. Variable benefits of R$ 35.00 (US$ 9.50) each (up to five per household), paid for (i) children or youths aged zero to 15, requiring mandatory school attendance for all those aged 6–15; (ii) pregnant women, for nine months; and (iii) nursing mothers, for six months, as long as they live in families with per capita household income below the poverty line of R$ 154.00 (US$ 41.70) per month.
c. Variable adolescent benefits, for 16- and 17-year-olds enrolled in school, of R$ 42.00 (US$ 12.60) (up to two per poor family).
d. Benefit for overcoming extreme poverty, the value of which is calculated individually for each household receiving the basic benefit.

It should hardly be necessary to remind readers that, unlike the BPC, controls and conditionalities were put in place for beneficiaries of the Programa Bolsa Família, although such mechanisms have no constitutional basis. The logic of policy management works to exalt targeting to such an extent that it becomes silently transformed into the "norm." In doing so, it weakens the right to assistance—which is now less of a right than full rights, since it is conditional, and hence the responsibility of the beneficiary. Poverty is thus regulated by parameters that vary in keeping with the characteristics of the beneficiary (e.g., age and household income), which goes against the Constitution and exacerbates horizontal inequities.

Unlike the norms regarding the indexation of pension benefits, salaries, the minimum wage, or the BPC (another assistance benefit), Bolsa Família is an exception; the frequency with which benefits and the poverty and indigence lines are updated reflects macroeconomic policy priorities, instead of being governed by parity. This means that not only is there no parity in poverty but also the lifestyle of the poor is automatically distanced from the average lifestyle, which has risen in quality by virtue of the growth of the economy and the increase in wages. The "exceptionality of the norm" in the indexing of Bolsa Família's benefits and cutoff lines reproduces differences that justify a level of survival set apart from the degree of well-being prevalent elsewhere in Brazilian society. This norm thus reduces the "propensity to cooperate and share," diluting the bonds

of reciprocity and thus reinforcing status asymmetries. Hence, although the majority of the Brazilian population approves of Bolsa Família (72 percent), the stigma attached to the poor (not to poverty) stubbornly hangs on, as revealed by a national survey carried out in 2012.[89] Among Brazilian adults, three-fourths or more believe that Bolsa Família should not be unconditional, that it should call for specific behavioral responses on the part of the children and adults it benefits, and that it should put controls in place to reduce abuse.

Bolsa Família has been recognized nationally and internationally as an exceptional public, poverty-fighting policy. None of this, however, was enough to ensure that the program be enshrined as a right, ensuring full coverage for its target population. As a non-right, Bolsa Família bends to budgetary logic and fails to expand its coverage as a countercyclical measure, as might be expected. It should raise eyebrows that in 2015, amidst a severe recession, with negative GDP growth, falling incomes and a return to rising inequality, headcounts of the poor have not varied and demand for such programs has not increased. As Table 4.1 indicates, real spending on Bolsa Família even fell that year. Once again, the answer may lie with the macroeconomic policy adjustments that call for flexibility—which legal institutionality makes difficult, as it implies the creation of regulatory norms. But it remains above all a discretionary measure in the line of reinforcing means-tested minimums, at the price of a Social Security system bereft of its structural principles and values. Although not written into our legal frameworks, the norm of targeting has gained such legitimacy that it has come to justify new, increasingly focused targeting mechanisms.

Healthcare: A Universal Right Threatened by Underfinancing and the Logic of Privatization

If the right to a safety net when tackling poverty constitutes an unprecedented extension of citizenship rights in Brazil—no matter the clearly identified limitations of their programs—then what to say of the recognition of healthcare as a universal, unconditional right? The utopia of "healthcare for all" is undeniably the hallmark of not just the 1988 Constitution but also the entire societal ideal in play at the time.

Prior to the passage of the 1988 Constitution, only formal workers with an employment record book (i.e., contributors to social insurance) had access to the public hospital system. The needy and excluded might count on sporadic care from philanthropic institutions and church-run

hospitals, relying on a supply that was extremely restricted in terms of both target population coverage and the range of services provided. Much of Brazil's population had never received medical attention in a hospital. From the 1960s onward, however, the privatized flank of the Brazilian healthcare system began to gain bulk. Under the military regime, there came company healthcare plans, which bypassed social insurance and put healthcare provision in the hands of employers. In search of quality and security, the middle classes began signing on to the first hospital plans and seeking out private care in clinics, where doctors gradually got together in groups or cooperatives to face up to the competition.[90] Companies tended to finance these plans themselves, in cooperation with collectives of doctors interested in working in the expanding fields of private hospitals and private outpatient centers.

With the debt crisis of the 1980s, healthcare rationing and growing problems in terms of the quality of the public healthcare network grew even worse, boosting a new phase of expansion for the private market. The growth and diversification of the activities of healthcare insurers attracted domestic investors and investments, as well as a few international insurers (though domestic capital still held sway). This second phase would see the emergence of indirect subsidies and paid plans for civil servants—while, on the supply side, new tax breaks would be granted to companies in the field.

The 1988 Constitution created the Unified Health System (Sistema Único de Saúde, or SUS) specifically as a counterpoint to the trend toward the privatization of Brazilian healthcare, inherited from the years of the dictatorship. The principle behind the public healthcare system, inspired on universal European models, was "health and democracy."[91] The slogan speaks to the basic idea behind the public health movement, which led the healthcare reform, as well as to its mobilizing power. The aim was to break away from the legacy of liberal, profit-oriented medicine and cut down on the use of the designation "philanthropic" for healthcare institutions, which, though benefiting from countless fiscal advantages,[92] were invariably less-than-philanthropic in nature. In their place would come a public system committed to full service, universal coverage, and equal access.

One of the goals of the movement was to get universal primary care to achieve an 80 percent resolution rate,[93] a target which is far from being reached even today. Another, in an attempt to guarantee quality of service, was to hire only civil servants and employees in the public sector. A third objective, one of the most crucial, sought to guarantee resources for the

Table 4.5 Brazil, characteristics of the Brazilian population enrolled in private healthcare plans and in SUS (2013)

Indicator	*Coverage (%)*
1. Registered with Programa Saúde da Família (households)	53.4
Registered with Programa Saúde da Família but were never visited by service providers in the program	17.7
2. People with medical or dental healthcare plans	27.9
2.1 By region	
Northeast	15.5
Southeast	36.9
2.2 By educational level	
College degree	68.8
Did not finish elementary school	16.4
2.3 By race/ethnicity	
White	37.9
Brown/black	19.0
3. Paid for by employer or through workplace	64.0
4. People who obtained at least one medication requested from SUS (in the past two weeks)	33.2
5. Last hospitalization was in SUS-run hospital	65.7
College degree	19.7
Did not finish middle school	80.6

Source: IBGE, Pesquisa Nacional de Saúde 2013

public healthcare system that would be sufficient to ensure stable financing for SUS, such that it would be able to provide decent care to the Brazilian population and meet its healthcare needs.

As for the first goal, data from Table 4.5 demonstrate that the public healthcare system continues to be shunned by the highly educated,[94] principally serving the poor and those unable to pay for private healthcare plans. The population with little education (those without a middle school diploma) turn to the public hospitals 80 percent of the time, while the same is true for fewer than one in five of those with college degrees. In terms of primary care, only a little over half of Brazilian households are enrolled in the Family Health Program (Programa Saúde da Família). Around 18 percent of them, although duly registered in the largest primary care program in the country, had never been visited by members of the program's team.

This state of affairs should not, however, mask the great differential that SUS boasts in several specialties. It is currently responsible for 95 percent of vaccine coverage (including all the vaccines recommended by

the WHO) and keeps up the largest public organ transplant system in the world, with 95 percent of transplants in Brazil carried out by SUS; dialysis is massively deficient, however, with a lack of availability and poor quality of service for those with chronic kidney ailments.

Table 4.5 also indicates that just one-third of the demand for medication was met by the public system in 2013, despite the existence of a well-regarded SUS initiative, the People's Pharmacy Program (Programa Farmácia Popular). This federal program subsidizes medications and distributes others for free in order to treat chronic ailments (diabetes, hypertension, asthma, etc.). Nonetheless, POF data from 2009 indicated that the largest chunk (80 percent) of private spending on healthcare in the bottom quintile of income distribution goes precisely toward medication. The program's efficacy in this area is also thus far unrealized.

One of SUS's major problems has been the rising precariousness of employment in intermediate and final services, which have been increasingly outsourced.[95] It is estimated that 50 percent of those employed in the sector today have part-time contracts or are third-party employees,[96] which implies extremely high turnover. This has been identified as a challenge in the effort to make the management of SUS more efficient; the revolving door of employment means that not even higher-level professionals, including doctors themselves, have been spared.

Finally, the rule guaranteeing adequate and sufficient financing through the creation of a separate budget, with exclusive, committed funds, was infringed countless times. Since its creation, SUS has been dealt successive mortal blows by way of underfinancing. The public system was not allocated 30 percent of the Social Security budget, as stipulated in the transitional provisions of the Federal Constitution; pension contributions were removed from healthcare financing in 1993[97]; since 1994, 20 percent of revenues from indirect social contributions have been removed on a yearly basis via the DRU; and a tax on financial operations, the Provisional Contribution on Financial Transactions (Contribuição Provisória sobre Movimentação Financeira, or CPMF), created in 1996 with the specific aim of pumping resources into a then-bloodless SUS, was stripped of its chief purpose, put to other ends, and finally done away with in 2007. According to Santos, "this dismantling of federal funding makes it possible to estimate that the real average budget for the Ministry of Health has been reduced by between 1/2 and 1/3 of expected funds."[98]

The reaction to this financial breakdown, carried out by the area responsible for macroeconomic policy, led to repeated proposals for bills

that would set aside 10 percent of the federal government's gross current revenue (or 18.7 percent of net current revenue) for healthcare.[99] But this, too, failed to take root.[100]

Another mechanism with a considerable impact on the underfinancing of health has been income tax waivers for individuals and corporations. Table 4.6 can give some idea of the volume of individual income tax revenues[101] across three sectors, for 2014 alone. That year, the federal government waived nearly R$ 12 billion (US$ 3.1 billion) through deductions for household spending on private healthcare,[102] the largest such waiver if compared to other tax credits on education and dependents. It should be said that three-fourths of the total went to wealthier families, those falling under the maximum income tax rate (27.5 percent). Tax expenditures on healthcare, in addition to feeding already-alarming levels of income inequality in Brazil, came to the equivalent of 10 percent of all federal spending[103] for the year, in a sector whose greatest challenge is maintaining and broadening its sources of funding. From 2007 to 2014—under the rule of the Workers' Party, in other words—tax credits on healthcare, which favored groups with greater purchasing power, came to R$ 86.6 billion (US$ 22.4 billion).[104]

Considering that two out of every three people with a college education in Brazil have healthcare plans (see Table 4.5), and that these are nec-

Table 4.6 Brazil, tax credits from personal income tax, by tax rate brackets, and nature of expenditure, 2014

	Health/medical expenditure		*Education expenditure*		*Dependents*[a]	
Tax rate brackets (%)	*Millions of Reais (2015)*	*Total tax credit (%)*	*Millions of Reais (2015)*	*Total tax credit (%)*	*Millions of Reais (2015)*	*Total tax credit (%)*
0.0	0	0.0	0	0.0	0	0.0
7.5	674	5.7	346	8.6	750	15.6
15.0	991	8.4	467	11.6	798	16.6
22.5	1114	9.4	498	12.4	684	14.3
27.5	9081	76.6	2700	67.3	2567	53.5
Total	11,860	100.0	4012	100.0	4798	100.0

Source: Receita Federal

[a] 2013 Values. Constant December 2015 Reais, adjusted by special consumer price index (IPCA-E). US$ 1 = R$ 3.87 (average for December 2015)

essarily high-income taxpayers, it becomes evident that tax policy focused on incentivizing private provision bends toward concentrating wealth and generating inequities.

Individual income tax regulations once limited deductions on private healthcare spending. One administration after the next would raise that cap,[105] but it was only eliminated altogether in 2005, under President Lula.[106] Throughout the Workers' Party's administrations, successive laws were shaped in order to create fiscal incentives for development and to strengthen private healthcare plans and policies, expanding tax deductions for households and service providers. Among the many changes brought about during this period,[107] one highlight is the 2006 introduction[108] of the possibility of assistance to civil servants by way of a partial public rebate on expenses related to private healthcare plans or policies. In other words, civil servants are doubly incentivized to shift to the private sector: not only do they benefit from waivers as individual income taxpayers, but a part of the cost of their premium is also returned to them by the State, via their payroll. This to say nothing of the ways in which high-coverage healthcare policyholders are encouraged to overconsume, given that they can deduct unlimited expenses, including plastic surgery and similar procedures. Relatively speaking, households are the group most favored by the distribution of tax credits for healthcare, taking up 37.8 percent of the whole. On the supply side, philanthropic hospitals come out the best, with around 30 percent.[109]

Ocké-Reis and Gama drew up an even more precise diagnosis of the total volume of the many sorts of tax breaks asphyxiating proper SUS performance. After identifying a range of current deductions available for household and corporate healthcare spending,[110] the authors concluded "that tax credits on healthcare (through waivers) in relation to total expenditures on activities and public services provided by the Ministry of Health remained practically stable from 2003 to 2013,"[111] around 30 percent.

In other words, nearly one-third of the federal government's potential budget for healthcare activities was thrown away over the course of ten years, in a move that principally benefited the consumption of private medicine by the most prosperous families in the country. The latter, already paying an unjustly low maximum income tax rate, fail to contribute to the public system, and in doing so perpetuate the current state of SUS. Enfeebled by a lack of financing and heavily stratified to boot, it is increasingly seen as a Brazilian version of Medicaid: healthcare for the poor.

With or without tax incentives, the fact is that the logic of privatization is ingrained into society as a whole. It was spearheaded by two converging trends. On one hand, it gained the support of a large flank of the union movement, which came to demand private healthcare plans as an indirect benefit for salaried employees and their families whenever negotiating with corporations or the State. Turning back to Table 4.5, one may see that 64 percent of the beneficiaries of private healthcare plans either have the plan paid for directly by their employers or provided through their work affiliation. On the other hand, private insurers and the companies in the so-called supplemental sector realized that the real increase in household income presented an opportunity to expand their offering; this led them to create plans with narrower coverage at lower rates. Lígia Bahia referred to this as the great innovation in the field of supplemental healthcare coverage; it led to new lines of collective plans characterized by significant restrictions on coverage and accessible prices designed to incorporate previously excluded segments of the population into the private healthcare assistance market.[112] This, in the area of healthcare services, was the path for the transition to a mass consumer society: via the acquisition of healthcare plans and affiliation to the insurance industry.

This, for that matter, is where much of information processing issues still reside. Many families seek to acquire the certainty of healthcare protection by purchasing a private plan. In practice, they are unaware of the actual degree of coverage they will be entitled to, should they need it. In order to encourage the "new" middle class to consume low-coverage healthcare plans, however, the federal government has been working directly through public banks such as Caixa Econômica Federal, which now offer highly segmented insurance policies in a strategy devised to feed the newly expanding supplemental sector.

Figure 4.2 describes the distribution of private healthcare plans according to the value of the monthly premium for each. One sees that the cheaper plans, those costing under R$ 99.00 (US$ 45.80) per month in 2013, accounted for 38 percent of insurers' clientele. The two lowest price levels (under R$ 199 or US$ 92.10 per month) covered 57.6 percent of those insured. According to the National Supplemental Healthcare Agency (Agência Nacional de Saúde Suplementar, or ANS),[113] for that year, the average monthly price was R$ 153.33 (US$ 71). Healthcare plans with broad, truly adequate coverage are only accessible to a small elite, which, even so, are rarely able to obtain full treatment for all of the specializations they may desire.

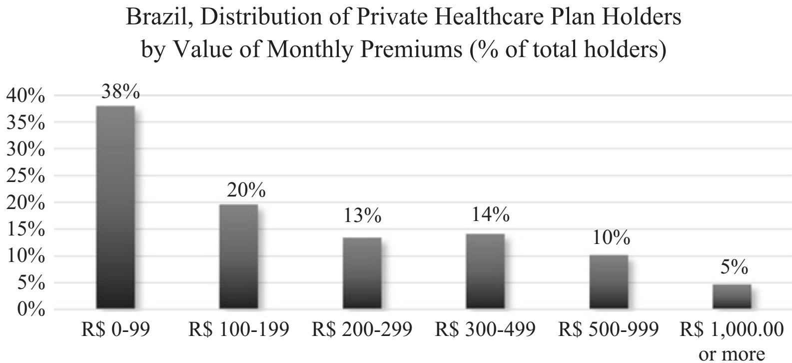

Fig. 4.2 Brazil, distribution of private healthcare plans holders by value of monthly premiums (% of total holders) [*Source*: IBGE, Pesquisa Nacional de Saúde, 2013. Nominal 2013 Reais. US$ 1 = R$ 2.16 (average for 2013)]

It is precisely this imbalance between supply and demand in terms of supplemental healthcare contracts which has fed the growing judicialization of healthcare. In 2015, the National Supplemental Healthcare Agency recorded 102,000 complaints (a figure that only represents those very few that were able to comply with restrictive regulations in place)—20 percent more than in 2014.[114] Two-thirds of those complaints had to do with lapses in the private-sector assistance to which policyholders were supposedly entitled.

Another peculiarity of the Brazilian healthcare model was the fact that it opted for a high degree of decentralization, taking the municipality as the basic organizational unit of the system. This generated paradoxical effects. In Brazil, the federal principle recognizes the full autonomy of the municipal sphere, allowing it to define the form in which it wishes to manage and distribute care. This, in turn, expands existing inequities and compromises the provision of a uniform level of care. The supply of medical services in Brazil is, evidently, profoundly unequal—a state of affairs exacerbated by frequent recourse to targeted programs in order to combat certain diseases or health risks. While acting in the name of the poor, these programs wind up being the priority for public health initiatives.

Indeed, in more remote regions, care tends to prioritize the "diseases of poverty," those identified as neglected, given that they are highly correlated to severe levels of destitution. This is a pragmatic approach, to be

sure, but it weakens SUS as a comprehensive system. The delimitation of the "diseases of poverty" imposes a private-sector management strategy on the public sector, one focused on rationing supply and setting priorities—which are nothing more than the recognition that, for the undeserved, there will always be risks left uncovered. Another factor reinforcing extremely stratified supply in Brazil is the shift toward the incorporation of new medical technologies for the better-remunerated segments of the private sector,[115] a phenomenon concentrated in the more developed regions of the country (the South and Southeast).

In 2000, public spending on healthcare at all levels of government came to 2.89 percent of GDP, rising to 4.6 percent in 2015. Table 4.2 indicates that, over the past decade, the federal government's portion of healthcare funding has remained practically unchanged, at around 1.7 percent. The increase is thus due to an upsurge in resources from subnational levels,[116] thanks to Constitutional Amendment[117] 29/2000,[118] stipulating that the states and municipalities take a greater part in funding healthcare activities and services. Municipalities came to set aside 15 percent of their net revenue for the sector, while the states committed 13 percent.

François Bremaeker has calculated estimates as to the division of healthcare spending in 2014 across all levels of government.[119] His study, with a sample of 88.9 percent of Brazilian municipalities, concludes that of the R$ 241,990 billion (US$ 102.8 billion) allocated in the area that year, municipalities came up with 30.22 percent, while the federal government chipped in 38.23 percent and the states provided 31.55 percent. The subnational spheres thus accounted for nearly two-thirds of all spending on health-related activities and services.[120] This decline in federal participation is essentially the result of fiscal adjustments at the federal level and the tax breaks that shrank the Social Security budget, as well as the official sequestering of funds via the DRU.

According to the WHO,[121] per capita spending on healthcare in Brazil[122] grew at a surprising rate, from US$ 201 per capita in 2002 to US$ 947 in 2014 (though still under the world average of US$ 1061), the equivalent of 8.3 percent of GDP. Most of that spending, however, came in the private sector. The public sphere accounted for just 46 percent of total expenditures on healthcare and medical treatment in Brazil in 2014, despite the existence of a free, universal system. The global average is also higher in this case, with public spending tending to comprise 60.1 percent of total healthcare expenditures. Similarly, private spending on medical services is mainly out-of-pocket (58.7 percent), prevailing over spending

on private prepaid plans. One should not forget that, in keeping with Table 4.5, just 27.9 percent of the Brazilian population (around 50 million people) was covered by a private medical or dental plan as of 2013. This indicates that private spending itself has failed to be efficient, as it is carried on in a non-planned, non-preventative fashion and may pose a real risk for families.

The dominance of private healthcare in meeting demand from the Brazilian population, and the subsequent unwinding of the public network, may be illustrated with just a few indicators. According to the Ministry of Health,[123] while 63.56 percent of intensive care beds were to be found in SUS facilities as of 2005, that figure had fallen to 51.77 percent by 2015. Another disquieting indicator may be found in the WHO's alert on countries conducting excessive numbers of Caesarian sections: Brazil is the world leader in the procedure, which is used in over half of births (53.7 percent, as opposed to the WHO-recommended rate of 15 percent). The "epidemic" of C-sections migrated from the private network to the public system, forcing the Ministry of Health to set the same level of remuneration for natural and Cesarean deliveries in an attempt to desincentivize the practice. In 2015, 84 percent of births in the private healthcare network were C-sections, whereas the same rate stood at 40 percent in SUS hospitals.[124] This anomaly, alongside the continued illegality and criminality of abortion, is directly responsible for the country's elevated maternal mortality rates.[125]

Now, armed with the knowledge that average labor income rose at a rate of 1.9 percent p.a. from 2003 to 2014 while the prices charged by liberal medicine rose 8 percent p.a.[126] over the same period, one cannot deny that healthcare costs have become a growing concern for family budgets, and that they have doubtless contributed to household debt. Having heard countless testimonies from middle-class Brazilians who turned to consigned loans to pay out-of-pocket expenses, looking to make good on debts related to hospital services, I ran a model that would make it possible to estimate a correlation between credit and spending on private healthcare services, with the understanding that the vigorous expansion in consumer credit was not solely limited to the acquisition of durable goods.

IBGE's National Accounts System provides information on the evolution of household spending on private education and healthcare services. The time series is a short one, as it was first made available in 2012 and covers the period through June of 2015. Despite this limitation, I was able to run a regression to determine whether consumer

credit (loans only)—both consigned (LOGCONSIGN) and non-consigned (LOGNCONSIGN)—was correlated to the expansion in private healthcare and educational services (LOGPRIVATESERVICES).[127] Two other relevant variables that might affect the behavior of the dependent variable were inserted as well: the expanded wage bill (LOGWBE) and the default rate (LOGDEFAULT). The equation was as follows (Table 4.7):

$$Logprivateservices_t = \beta_0 + \beta_1 logConsig_t + \beta_2 logNconsig_t + \beta_3 logdefault_t + \beta_3 logWBE_t + u_t$$

The result indicates an extremely strong correlation between consigned credit and the private provision of healthcare and educational services, while the expanded wage bill showed no such association. Nor was non-consigned credit significant in the expansion of the services in question, but it also had a smaller weight and a coefficient nearly half that of consigned credit. This indicates that in addition to incentivizing domestic retail sales and access to basic and durable goods, banking loans have been

Table 4.7 Regression 2: LOGPRIVATESERVICES

Model: LOGPRIVATESERVICES

	Coefficient	*Std. error*	*t-statistic*	*Prob.*
LOGRNCONSIG	0.248165	0.079995	3.102265	0.0037
LOGRCONSIG	0.460756	0.043795	10.52068	0
LOGDEFAULT	−0.068021	0.029599	−2.298072	0.0273
LOGWBE	−0.075314	0.070452	−1.069011	0.292
C	−2.885034	1.420899	−2.030428	0.0495
R-squared	0.900469	Mean dependent var		4.682948
Adjusted R-squared	0.889708	S.D. dependent var		0.02787
S.E. of regression	0.009256	Akaike info criterion		−6.415816
Sum squared resid	0.00317	Schwarz criterion		−6.208951
Log likelihood	139.7321	Hannan-Quinn criterion		−6.339992
F-statistic	83.68545	Durbin-Watson stat		1.516626
Prob(*F*-statistic)	0			

Source: own elaboration

As in the model presented in Chap. 2, unit root tests and cointegration tests were carried out on this data, with satisfactory results (non-stationary, cointegrated series). Said tests may be consulted upon request

crucial as of late in facilitating access to private healthcare and educational services.

This is just one of the facets of the accelerated financialization of supplemental healthcare in Brazil. The creation of a special line of direct consumer credit specifically for plastic surgery reveals a coordinated strategy between banks, private insurers, and the liberal medical class. The website of the second-largest private bank in Brazil offers consumer loans of this sort with a fixed interest rate of 6.02 percent per month, for a rate of 101.61 percent p.a., with terms up to 48 months and installments starting at R$ 20 (US$ 6.25) per month. The maximum value of this sort of loan is R$ 20,000.00 (US$ 6250). All such expenses would, of course, be fully deductible from individual income tax.

The peculiar thing about the financialized expansion of private medicine is that the net worth of healthcare plan providers is seen to far outstrip earnings from premium payments, even more so when compared to the progression of coverage (the number of policyholders). Figure 4.3 illustrates this trend, emphasizing the evolution of the net worth of the healthcare plan sector alone. If one were to include the variations in equity for insurers specializing in healthcare which are also currently selling healthcare plans, the figure for 2015 would not be 333, but nearly double that. The market value of healthcare plan companies and insurers came to

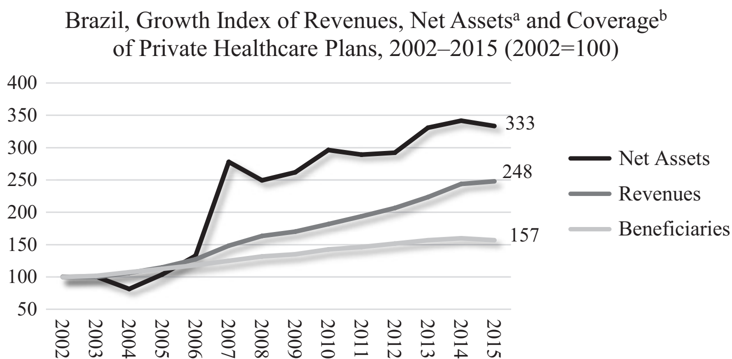

Fig. 4.3 Brazil, growth index of revenues, net assets [net assets and revenues from the payment of premiums in constant December 2015 Reais, adjusted by Consumer Price Index (IPCA)] and coverage (number of beneficiaries) of private healthcare plans, 2002–2015 (2002 = 100) [*Source*: National Health Agency (ANS)]

R$ 40.4 billion (US$ 10.439 billion) in 2015, as opposed to just R$ 12.2 billion (US$ 3.152 billion) in 2002, having tripled in just 13 years.

Figure 4.3, moreover, reveals even more. The ace in the hole in terms of the leap in these companies' net assets worth emerges around 2006, when several measures incentivizing private medicine were adopted. Tax credits for healthcare were made into an unlimited deduction on individual and corporate income tax in late 2005, and new criteria are set for conceding certificates of philanthropy—an advantageous designation for private entities operating hospitals, medical clinics, or laboratories.[128]

In Bahia's apt formulation, this performance was made possible thanks to the double-edged leveraging strategy adopted by the supplemental healthcare sector in Brazil in the mid-2000s. On one hand, catching the ongoing wave of growth, it began to offer plans with limited coverage and accessible prices designed to attract the "new" middle classes in an attempt to broaden their scale without the risk of spending taking off and threatening their profitability. When they lack coverage in a particular specialization or treatment in the private network, the low-income working population can fall back on a bloodless SUS for some measure of succor. On the other hand, private companies in the area of medical and hospital assistance, as well as those running networks of laboratories, saw their net worth rise quickly during the second half of the 2000s after going public on the stock market.[129] This was complemented by a continuous wave of acquisitions and mergers, which has increased concentration in the sector while enhancing its degree of internationalization. All this was tacitly approved by the National Supplemental Healthcare Agency, the regulatory agency responsible for the private healthcare sector, which has almost invariably been run by a representative of the market since its creation in 2000.

In order to facilitate an already-ongoing process hungry for institutional support, new regulations and business-friendly legislation were drawn up. For example, 2015 brought the long-awaited passage of a law opening up healthcare to foreign investment.[130] In the wake of this unrestricted liberalization, foreign companies began participating in all available services, whether directly or indirectly, having now been authorized to control domestic companies in the areas of hospital care, general practice, specialized consults, company coverage, lab work, and even philanthropic care. The old justification for this was that the sector lacked investment; foreign investment had previously been banned by the Constitution with the aim of preserving strategic areas of SUS activity. Although active in

supplemental medicine, it is likely that said groups may come to have a direct impact on the public system in terms of rising prices, given the broad case of private providers who already perform services for SUS.

The process of the financialization of the supplemental healthcare sector in Brazil is advancing in long strides, although little is known about the extremely complex dynamic of the interaction between private interests, financial conglomerates, and public regulation, with not inconsiderable effects on the Unified Health System. In this process, the State has played a prominent role in the shaping of the legal and fiscal framework, both legitimizing and institutionalizing this trajectory.

The population, meanwhile, is clearly polarized over the role that public provision ought to play. While 63.2 percent of Brazilians agree that healthcare and education ought to be offered free of charge to the entire population, just over one-third disagree, affirming that "the government should only offer free education and healthcare to the poorest and most vulnerable" in society.[131] Though in the minority, it is this perception of public healthcare policy that has steadily reshaped a sector marked by "a tangle of advances and distortions."[132]

The Dream of a College Degree, Now on the Road to Financialization

"It was under Lula that healthcare and education were most effectively consolidated as businesses!" Claudio Salm and Lígia Bahia could hardly have put it more cuttingly.[133] Although education is not a part of the Social Security system, it is a sector where the logic of financialization, having also taken root in healthcare, would come to settle in and restructure supply—especially so in the case of higher education, the object of this section.

In Brazil, elementary and middle schools are managed by municipalities, while secondary schools are overseen by the states and higher education falls to the federal government.[134] In 2014, public spending on education came to 5.7 percent of GDP[135] (as opposed to 4.1 percent in 2002). Of that total, 1.7 percent was federal—half went to financing higher education—while the rest is managed by subnational levels of government (states and municipalities). Like the healthcare system, education also favors a strongly decentralized model, with committed funds for the sector set aside at each level of government. The National Education Plan, however, adopted via law no. 13,005 in 2014, aims to increase educational

spending to the level of 10 percent of GDP by 2024[136] in the attempt to successfully tackle the challenge of improving the quality of Brazilian education, from preschool to graduate school.

In other areas, significant progress was made in education; the percentage of 16-year-olds having graduated from middle school[137] went up from 52.1 percent in 2002 to 73.7 percent in 2014.[138] This was not enough to shake the prevailing class gap, however, since among the poorest 20 percent of the population that figure falls to 62 percent, and in the most affluent quintile it stands at 90 percent.

Similarly, the same period saw the percentage of children aged zero to three enrolled in preschool rise from 14.9 to 29.6 percent. Once again, however, this improvement—however positive—is far from satisfactory. When broken down by income level, the data reveal starkly different sets of opportunities in terms of early childhood education: only one in five children in the first quintile attend preschool, as opposed to one in two for the wealthiest 20 percent. These children are certainly enrolled in private institutions, the cost of which will be deducted from income tax, as laid out in Table 4.6.

From the point of view of school infrastructure, the situation is critical. The Observatório do Plano Nacional de Educação estimates that fewer than 15 percent of all schools[139] are equipped with adequate infrastructure.[140]

The most worrisome data yet, however, are to be found in terms of performance. The Observatório reports that in 2012, 44.54 percent of children in third grade demonstrated an adequate mastery of reading, just 30.9 percent showed the same proficiency in writing, and only 14.3 percent performed satisfactorily in mathematics (average across all schools). The rates are even worse when one looks at public schools in isolation: 39.45 percent, 25.91 percent, and 12 percent, respectively. One can only imagine the future cumulative effects of an education so deficient in terms of the acquisition of basic skills. Now, it should be said that as of 2014, three out of four schoolteachers had college degrees—the inference being that the efficacy of teacher training does not automatically translate into improved schooling for children and youth.

As in the case of healthcare, the underfinancing and neglect of Brazil's public education is hardly a new phenomenon. The trend toward the privatization of supply across all levels took off during the military regime.[141] The modernization of higher education was made a priority in the context of a broader national ambition to see a "Brasil Grande," and became a marker of class around the same time. In yet another Brazilian paradox,

middle-class, upper-middle-class, and wealthy children and teenagers tend to study in high-quality, expensive, and selective private schools, and then turn to the public system when they enter college, since the public universities are better ranked in terms of educational quality, professorial excellence, and student performance. Low-income and working-class youths, meanwhile, swell the ranks of public schools[142] and are later left to try their luck in private universities, aided by scholarships and educational credit.

Nina Castellano recalls that the expansion of private education after the coup of 1964, in parallel with the stranglehold put on public educational institutions, benefited significantly from tax reforms carried out by the military government. These waived taxes[143] on income, net worth, and services for educational institutions of any sort. The military regime also oversaw the implementation of the Educational Credit Program, CREDUC, first put into place in 1975, and which was brought to an end by extremely high default rates (85 percent), despite generous financing terms.[144] The government was ultimately forced to renegotiate debts, granting rediscounts of up to 90 percent.

At the time, free access to higher education was conditional on being able to prove one's poverty, a norm inherited from the 1946 Constitution. Fees were charged at public institutions, but not monthly tuition charges. But poor students never made it close to the college gates, let alone cross them. The Citizen Constitution of 1988 would determine that education be completely free at government schools,[145] which went for public universities as well; and it would also stipulate that private enterprise might act freely in the sector.

Primary and middle school are currently mandatory in Brazil; secondary school was meant to become mandatory by 2016, a target left unmet for lack of investment. This goes a way toward explaining why just 56.7 percent of 19-year-olds have high school degrees[146]—a gap which failed to stand in the way of an explosion of demand for spots in universities, access to which was broadened and democratized under the Workers' Party's administrations. The percentage of Brazilians age 25 and up with college degrees practically doubled from 2002 to 2014, from 7.6 to 13.3 percent.[147]

A similar pattern could be observed in terms of the number of students enrolled in colleges or universities, which went from 3 million to 6.48 million over the same period.[148] This bump reflects policies incentivizing students to attend college, whether public or private. The eligibility criterion consists of passing the National Secondary School Exam (Exame Nacional

do Ensino Médio, or ENEM[149]), for those enrolled in public school, or passing the *vestibular*, an entrance exam open to all.

This leap is the result of a combination of strategies focused on raising the number of available slots at colleges and universities. In the public arena, 14 new federal universities were created between 2003 and 2014, and 2007 saw the launch of REUNI,[150] a social inclusion initiative designed to increase access to higher education and ensure that students stayed there. Institutions enrolled with REUNI were granted additional resources.

In 2012, moreover, Brazil passed the Quota Law[151] after a heated national debate. The legislation stipulates that at least 50 percent of slots at federal institutions of higher education must go to applicants who attended public schools for all of their secondary education. Slots set aside for quotas are divided into several categories: half go to students from families with per capita income less than or equal to 1.5 minimum wages per month, while the rest go to those with per capita household income above that line. In both cases, a minimum percentage of those admitted via quotas must be self-identified as Black, Brown, or Indigenous students, in a ratio reflecting the representation of each subgroup in the state in question.

All of these programs led to a significant rise in the number of racial minorities, as well as students of low-income backgrounds, enrolled in higher education in Brazil. In 2004, only 16.7 percent of the Black and Brown population aged 18–24 attended college. For White youths, the percentage was 47.5 percent. In 2014, although the gap has yet to vanish, the former has reached 2004 levels for the White population (at 45.5 percent), while the majority of Whites ages 18–24 are now attending college (71.4 percent).

These efforts were unable to halt the growing primacy of private provision, however. In 2014, 74 percent of Brazilian college students attended private institutions, slightly up from 2002 (69.7 percent).[152] This may be chalked up to a history of elitist policies regulating access to public universities, which called for an entry exam and offered few slots, making up for this bottleneck with special programs that incentivized students to enter private education—policies that only grew under the Workers' Party.

Two large-scale programs stand out in this arena. Both sought to raise enrollment rates in higher education without having to increase the number of slots at public universities in keeping with demand, which would have called for far more significant investments than were actually made.

The University for All Program (Programa Universidade Para Todos, known as PROUNI) was created in 2005,[153] during President Lula's first term. It is a means-tested program offering full and partial (50 percent) scholarships at private universities for those graduating from public schools whose per capita household income is below three minimum wages. From 2005 to 2014, 873,600 students were granted full scholarships and 400,000 received partial aid.

Private institutions participating in PROUNI, if they are for-profit companies,[154] are exempt from corporate income tax and an array of contributory taxes financing Social Security (COFINS, CSLL, and PIS). According to the Ministry of Education,[155] the sum total of these exemptions came to R$ 3.257 billion[156] (US$ 1.567 billion) from 2005 to 2012.[157] The most serious critique of PROUNI was that it funneled students who had already been underserved over the course of their educational careers so far into second-rate, low-ranked universities, where they served to fill empty slots—in a process, once again, greased by hefty tax breaks.

But the program with the most spectacular effect on broadening access to higher education was the Student Financing Fund (Fundo de Financiamento Estudantil, or FIES), a line of educational credit which became law under Fernando Henrique Cardoso in 2001,[158] substituting CREDUC. In its first incarnation, which was in place through 2009, FIES charged an annual interest rate of 6.5 percent[159] and required that loans be paid off in up to twice the length of the degree course, with a grace period of 18 months following graduation. During their studies and throughout the grace period, students paid up to R$ 50 (in current Reais, or US$ 25) per month in interest.

In 2010, however, the rules changed, with the federal government reshaping FIES entirely. The student credit program became the major channel for supporting the expansion of private-sector supply. Interest rates were cut to 3.4 percent per year, borrowers were no longer required to have guarantors, and the repayment period was extended to three times the length of the course, plus 12 months, with an 18-month grace period and installation payments during one's course of study of up to R$ 150 (US$ 38.75) per trimester.[160]

These increasingly flexible financing rules, extended repayment periods, and the fact that interest rates fell by half led almost immediately to a wave of acquisitions and mergers among the largest educational corporations—thus broadening the presence of financial capital in the sector and the internationalization of the supply of university degrees.

The two largest educational groups in Brazil, Kroton S.A. and Estácio Participações S.A., were no exception. By 2013, Kroton had already absorbed the nation's largest higher education group, Anhanguera Educacional, to form the largest global conglomerate in this sector, with over a million students. In 2016, it already began negotiations to buy Estácio, acquiring all of its stock. Created in 1966 as a series of classes preparing students for college entrance exams, Kroton has cemented its leadership as the largest private educational group internationally. As Forbes puts it, "although the Brazilian educational scene is hardly a model for the planet, it is home to the largest education group in the world in terms of market value[161] – R$ 27.6 billion"[162] (US$ 9.8 billion).

The boom began in 2007, between Lula's first and second terms. Up through 2006, colleges and universities had been mostly taxed as belonging to individuals, or as non-profit institutions. Now the largest groups in the field shifted their profiles and went public on the Bovespa (São Paulo Stock Exchange) around 2008–2009. International private equity firms[163] came to buy shares in these corporations as the process of financialization spread ever more aggressively throughout the educational realm. This strategy would not have had such an extraordinary effect, however, if it were not for the boost given by FIES.

Figure 4.4 shows the swift rise in the number of undergraduates financed by FIES after the program was reconfigured in 2010, focusing

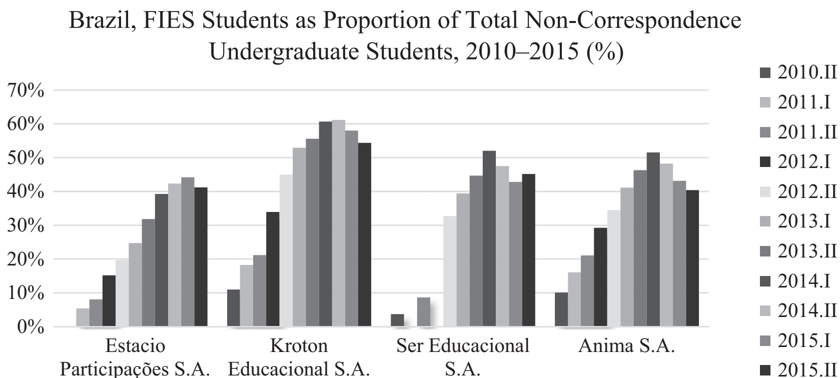

Fig. 4.4 Brazil, FIES students as proportion of total non-correspondence undergraduate students, 2010–2015 (%) (*Source*: quarterly releases from the selected institutions)

on four important publicly traded private institutions. The proportion of FIES-financed students among undergraduates not studying long-distance was modest through late 2010, coming to just 10.9 percent at most, in the case of Kroton. Over five years, that figure would increase exponentially, staying above 40 percent even in 2015, by which time the crisis had materialized fully and FIES's supply of new loans declined sharply. Kroton led the pack in this respect, with over 60 percent of its undergraduate students taking out FIES loans in 2014—a figure that remained above half of the total student body in 2015.

Figure 4.5, meanwhile, traces the impressive rise of the share prices of the companies in question from 2010 onward, an ascension that tracked along with the expansion of the credit being offered by FIES. The brusque downturn from 2015 onward speaks of cuts in the program, wrought as part of the fiscal adjustment early in Dilma Rousseff's second term.

It should be said that while shareholders at Ser Educacional S.A. and Anima Educação S.A. are mainly individuals and investment funds in Brazil, Kroton and Estácio (up through its acquisition, at least) had a majority of their shares in the hands of global funds located in the United States, South Africa, and elsewhere around the world.

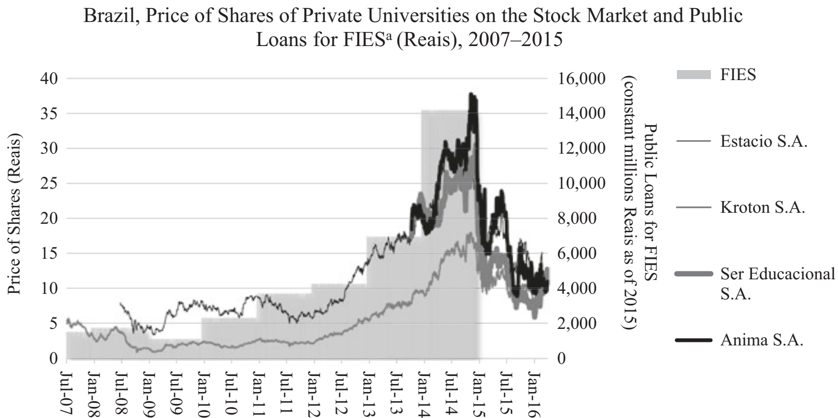

Fig. 4.5 Brazil, price of shares of private universities on the stock market and public loans for FIES [constant December 2015 Reais, adjusted by consumer price index (IPCA), annual indexation departing from January. US$ 1 = R$ 3.87 (average of December 2015)] (Reais), 2007–2015 [Source: BOVESPA and Queiroz (2015)]

Within this well-orchestrated movement, IPOs generated revenues, which then drove acquisitions at a stunning rate after 2011. This would strengthen processes of concentration and financialization, completely transforming a sector once conceived of in terms of citizenship rights. Backed up by solid public resources, this transformation advanced on a massive scale. In 2014, total federal spending on higher education came to R$ 34 billion (US$ 14.4 billion), while another R$ 14 billion (US$ 6.4 billion),[164] or 41.1 percent of the former, were passed on to FIES in the form of student loans, flowing directly into the coffers of private institutions.

With this in mind, it is hardly surprising to behold the breakneck growth in the net worth of the four companies under analysis over such a short period of time, as seen in Fig. 4.6. The performance of Estácio and Kroton S.A. calls for the use of uncommon superlatives; they began surging in 2007, although they clearly took off after the 2010 restructuring of FIES. Anima found in FIES a successful recovery strategy, meanwhile. The fact that the fund essentially eliminated defaults by transferring them to the State must have had some hand in the firm's tremendous turnaround.

Who are the beneficiaries of FIES loans? In large part, these students belong to the "new" middle class. With no savings and no chance of getting into public universities, they keep on trying their luck at private institutions, taking out loans and contracting long-term debts, amidst a haze of uncertainties. The fact that college graduates tend to earn 145 percent more, on average, than those with just a high school diploma[165] is, in and of itself, incentive enough to go into debt.

Despite the apparently favorable terms of these loans, tuition fees should give pause. In addition to stimulating the process of financialization in higher education, FIES also contributed directly to a steep rise in tuition at private institutions, on the order of 6 percent above inflation[166] in the sector.

Considering that monthly earnings for college graduates stood around R$ 3990 (US$ 1700) in 2014, taking out student loans that can add up to somewhere between R$ 500,000[167] (around US$ 155,700) and R$ 800,000 (US$ 249,220) if one wishes to study medicine at a second-rate school, can ultimately negatively compromise one's future. Less-popular degrees are not as expensive, but still charge exorbitant tuition rates.

These costs have tended to rise, given the fact that private educational credit (with meatier interest rates, on the order of 4.9 percent per month) has flooded the market in order to make up for the drop in public funding.[168] This is the latest gold mine for investment funds in Brazil.

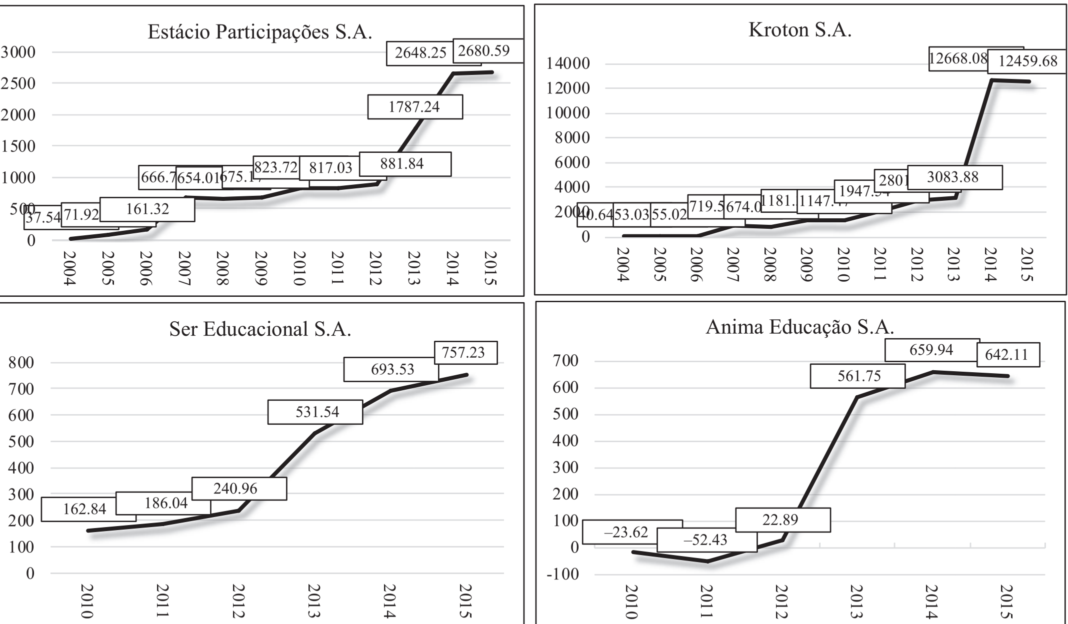

Fig. 4.6 Brazil, net assets of educational corporations, 2004–2015 (constant millions Reais as of 2015)

One can only imagine the potentially disastrous effects of a student flight to private educational credit: in 2014, the default rate on FIES loans in the repayment phase hit 47.14 percent, with half not having made a payment in over a year.[169]

Wrapping Up

José Roberto Afonso and Kleber Pacheco de Castro[170] shed light on the paradox inherent in the fact that Brazil oversaw a considerable rise in spending from 2000–2008 amidst continued fiscal austerity. This was only made possible, according to the authors, by the increase in the tax burden brought about by the formalization of employment, favorable commodities prices that benefited the external sector, a robust upsurge in household consumption, and the expansion of fiscal space and rising rates, as well as the creation of new taxes and contributions.

This chapter, for its part, has demonstrated how tax waivers, tax credits, and other, similar advantages worked selectively and effectively to boost the expansion and strengthening of finance for college education, with deleterious effects on the consolidation of the public welfare system. Moreover, recent data from the Receita Federal, as plotted in Table 4.8, confirm that the tax burden remained at constant levels vis-à-vis GDP, around 33.5 percent. To say that the tax burden rose in absolute terms thus only tells part of the story. Rising rates and new taxes created here and there did not affect all equally.

While the so-called new middle classes, groups with greater vulnerability and less purchasing power, contributed heavily to the expansion in revenue from indirect taxes on consumption, as a consequence of their newfound protagonism in the domestic market, financial transactions were repeatedly exempted and benefited.

Table 4.8 shows how the fiscal burden is distributed in Brazil by tax base. Indirect taxes on goods and services, which affect the entire population regardless of income level, represent a disproportionate and growing share of the tax revenue: 51 percent in 2014, as opposed to 49.4 percent in 2004. Payroll taxes came to 25.2 percent of the tax burden in 2014, also showing a rise. They represent the highest rate among all direct taxes, despite the fact that tax exemptions on the payroll for employers increased rapidly. This means that the share of labor in the payroll taxes grew, being effectively penalized.

Table 4.8 Brazil, tax burden—composition of tax revenues by categories—2005–2014

	2005 (%)	*2006 (%)*	*2007 (%)*	*2008 (%)*	*2009 (%)*	*2010 (%)*	*2011 (%)*	*2012 (%)*	*2013 (%)*	*2014 (%)*
As a % of GDP										
Income and gains	6.3	6.2	6.5	6.9	6.3	5.9	6.4	6.0	6.1	6.0
Payroll	8.0	8.0	8.1	8.1	8.3	8.3	8.4	8.6	8.5	8.4
Property and wealth	1.1	1.2	1.2	1.2	1.3	1.2	1.3	1.3	1.3	1.4
Goods and services	16.6	16.4	16.3	16.9	15.9	16.4	16.7	16.9	17.3	17.1
Financial transactions	1.6	1.6	1.6	0.7	0.6	0.7	0.7	0.7	0.6	0.5
Others	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	33.6	33.4	33.8	33.7	32.4	32.5	33.4	33.4	33.7	33.5
As a of total revenues										
Income and gains	18.6	18.4	19.3	20.4	19.6	18.2	19.1	17.9	18.1	18.0
Payroll	23.7	24.1	23.8	23.9	25.7	25.4	25.0	25.7	25.0	25.2
Property and wealth	3.3	3.5	3.5	3.6	3.9	3.8	3.7	3.9	3.9	4.2
Goods and services	49.4	49.1	48.4	50.2	49.1	50.5	50.0	50.6	51.2	51.0
Financial transactions	4.8	4.8	4.8	2.0	1.8	2.1	2.2	2.0	1.7	1.6
Others	0.2	0.1	0.3	0.0	0.0	2.1	2.2	2.0	1.7	1.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Receita Federal, "Carga Tributária no Brasil" report (2015)

Taxes on income (personal and corporate) and other gains, on the other hand, made up just 18 percent of tax revenue in 2014, a figure that remained relatively stagnant throughout the period. Taxation on financial transactions, meanwhile, dropped significantly after 2006 (not by accident), falling from 4.8 to 1.6 percent of total tax income. Taxes on property and wealth improved slightly, while still remaining extremely modest (4.2 percent as of 2014), perpetuating the very regressive profile of the Brazilian tax system.

It was precisely starting in 2006–2007 that targeted tax waivers began to proliferate, taking on an astonishing scale and shaking the foundations of the public social protection system, along with other spheres of guaranteed rights, such as education. As if to supplement it, there emerged a well-

coordinated bundle of fiscal incentives and regulations that, in addition to bolstering the commodification of the provision of well-being—a bias that the 1988 Constitution was ultimately unable to overcome—shifted private supply into the hands of global finance.

Financial neoliberalism works to regulate the supply of healthcare services in SUS and in the private sector; it shapes the expansion of private supply in education, especially in colleges and universities, but not exclusively so; it undermines the pay-as-you-go system for public social insurance by dismantling mechanisms based on solidarity and deepening the individualist logic of fully funded systems, which are incentivized in several senses.

By being deprived of specifically committed, exclusive revenue streams, Social Security is threatened, and the quality and coverage of public provision as a whole is made to fall into disrepair. This process reinforces patterns of segregation which are highly stratified by income.

Neither did cash transfers escape from the process of financialization; they are used as collateral to anchor the consumer credit boom. Their swift advance, moving en masse across the most vulnerable segments of the population—the so-called new middle class and those poorer than them—serves other ends than simply addressing market failures and ensuring a measure of socio-economic stability. Their function becomes redefined within the finance-dominated accumulation regime.

The feat pulled off by the Workers' Party was to operate two tripods simultaneously and hand in hand, in such a way as to favor the logic of financial accumulation. On the macroeconomic policy front, the tripod consisted of keeping up the primary budget surplus, a floating exchange rate, and inflation targets. These last two mechanisms together constantly pushed interest rates upwards, accelerating the merry-go-round of the financialization of the economy. On the social policy front, the tripod worked to preserve the concentration of social spending on contributory and non-contributory cash transfers, serving as collateral in order to access the financial sector (credit and new products and services). In parallel, it helped drain Social Security of its exclusive funding sources by way of exemptions, tax credits, and other incentives that confirmed a move toward the prevalence of the financial sector in the provision of well-being, to the detriment of universal policies. Finally, the social tripod effectively undid the effect that a progressive tax system might have had as a powerful mechanism for promoting redistribution, fighting inequality, and financing public policies.

Notes

1. Mesa-Lago, "As Reformas de Previdência na América Latina"; Teixeira, "Do Seguro à Seguridade"; Fagnani, "Política Social no Brasil (1964–2002)"; Fleury, "A Montagem do Padrão de Seguridade Social na América Latina."
2. Unemployment insurance was first introduced in Brazil in 1986. It covered salaried workers fired without just cause, and required that the employee have been contributing for 36 months prior over the course of four years preceding the firing; the benefit provided was just four parcels of a fraction of the employee's salary.
3. See note 74 in Chap. 3.
4. "Health is a right of all and a duty of the State and shall be guaranteed by means of social and economic policies aimed at reducing the risk of illness and other hazards and at the universal and equal access to actions and services for its promotion, protection and recovery" (Art. 196). Article 198, meanwhile, stipulates that healthcare should provide full, decentralized service with the participation of the community.
5. Art. 199, § 1.
6. Art. 201.
7. Restricted exclusively to salaried employees.
8. Art. 203. "Social assistance shall be rendered to whomever may need it, regardless of contribution to social welfare." This will be funded by resources from the Social Security budget, in keeping with Art. 204.
9. Art. 182.
10. Art. 184.
11. Art. 6; Art. 23, clause V; Art. 205. "Education, which is the right of all and duty of the State and of the family, shall be promoted and fostered with the cooperation of society, with a view to the full development of the person, his [sic] preparation for the exercise of citizenship and his [sic] qualification for work," with free public education being provided through official schools (Art. 206, clause IV). "In the distribution of public funds, priority shall be given to the providing for the needs of compulsory education, as regards universalization, assurance of quality standards, and equality, as set forth in the national education plan" (Art. 212, § 3).

12. Fagnani and Vaz, "Seguridade Social, Direitos Constitucionais e Desenvolvimento," 98–9.
13. Fagnani, "Política Social no Brasil (1964–2002)."
14. Since 1988, Brazil has worked off three separate budgets: the fiscal budget, the Social Security budget (which is exclusive to it), and the investment plan for state-run companies.
15. The Social Contribution to the Financing of Social Security (Contribuição Social para o Financiamento da Seguridade Social, or COFINS) is levied on business billings. The rate went from 2 percent of corporations' monthly billings (gross revenue on the sale of merchandise, merchandise and services, and services of any nature), at the time of the tax's creation in 1991, to 3 percent in 1998, only to be raised again under Lula to 7.6 percent. Note that financial institutions, and non-profits, as well as private healthcare providers (as of 2013) benefit from a different system, wherein they pay a lower rate of just 4 percent. All products and services are subject to COFINS, which is reflected in final prices.
16. The Social Contribution on Net Profits (Contribuição Social sobre o Lucro Líquido, or CSLL), which had stood at 8 percent up through the first half of 1999, was raised to 12 percent midway through the year and then lowered to 9 percent as of 2000. For financial institutions and the like, the rate is 15 percent; but only a slight percentage of their profits is taken into account when calculating payments.
17. The Social Integration Program (Programa de Integração Social, or PIS) and the Civil Servants Savings Program (Programa de Formação do Patrimônio do Servidor Público, or PASEP) are taxes levied on companies' turnover, which make it possible to pay annual bonuses to employed workers earning up to two minimum wages. PIS is paid to those employed at private companies, and PASEP goes to civil servants. The rate of taxation is 1.65 percent to finance Social Security; in the case of financial institutions, that rate falls to 0.65 percent.
18. Gentil notes that records of revenues and spending from the Social Security budget began to be published regularly and systematically in 1995. Gentil, "A Política Fiscal e a Falsa Crise da Seguridade Social Brasileira."
19. Fagnani and Vaz, "Seguridade Social, Direitos Constitucionais e Desenvolvimento."

20. The choice of the time series 2005–2015 stemmed from the fact that the series had been fully consolidated by ANFIP in June of 2015, and was hence consistent.
21. Over the course of the decade in question, total Social Security revenues grew at a rate of 2.3 percent p.a.
22. This includes Simples Nacional—a shared collection, enforcement, and inspection regime for taxation of micro enterprises and small businesses in Brazil. This is its RGPS contribution, which was instituted in 2006, albeit at lower rates.
23. For a systematic analysis, see Cordilha, "Desoneração da Folha de Pagamentos." The programs to stimulate industrial growth adopted under Luiz Inácio Lula da Silva were the Industrial, Technological and Foreign Trade Policy (Política Industrial, Tecnológica e de Comércio Exterior, or PITCE), and the Productive Development Policy (Política de Desenvolvimento Produtivo, or PDP).
24. Cordilha, "Desoneração da Folha de Pagamentos," 109.
25. Werneck, "Abertura, competitividade e desoneração fiscal."
26. The Payroll Tax Exemption was instituted at the time of the Plano Brasil Maior in 2011. The removal of employer contributions to social insurance of 20 percent of their payroll was substituted by the collection of a rate varying between 1 and 2 percent on billing, depending on the sector. Even so, Cordilha argues, the net effect is that of a tax waiver.
27. IT, textiles, footwear and leather goods, and furniture.
28. The most surprising case in this respect is call centers, where low salaries predominate even for such a labor-intensive activity.
29. Cordilha, "Desoneração da Folha de Pagamentos," 100.
30. In constant December 2015 Reais.
31. Receita Federal, "Demonstrativo dos Gastos Tributários (2007–2015)." Exemptions on COFINS, PIS-PASEP, CSLL, and social insurance contributions. Constant Reais, corrected by the IPCA from September of the year preceding the initial date, through December 2015.
32. The Emergency Social Fund (FSE) stood as the first phase of the Plano Real, which managed to stabilize Brazil's economy starting in mid-1994. Before the plan was adopted, a furious debate as to the causes of skyrocketing inflation in Brazil had racked the academic world, polarizing policy-makers in the process. Some argued

that a fiscal adjustment would be necessary before any change of currency, believing that inflation was fed by the deficit; the reasoning was that highly indexed debt, even debt linked to the base interest rate (as was the case with the Treasury Financial Bills, or LFTs), was feeding the deficit and impeding monetary policy from fighting inflation more effectively. Whenever the Central Bank raised the base interest rate in an attempt to curb demand and push inflation down, the income of LFT holders rose, which wound up working against the contraction of aggregate demand. This camp argued that if the fiscal problem were not resolved, inflation would return; they pushed for the creation of a fund, by cutting spending. On the other hand, some called the country's inflation purely inertial. They contended that if the currency were changed and debt indexing mechanisms were removed, the deficit would fall flat. Heterodox opinion had it that raising interest rates did not stimulate consumption, but rather sped up the financial merry-go-round, favoring rentiers and the concentration of income. The FSE was initially a stopgap, heeding the orthodox view that before proceeding to deindexation and monetary reform, it would be necessary to stave off any deficit on the public ledgers. Spending cuts in the name of generating a primary budget surplus, seeking to contain the growth of the public debt, was the justification that would legitimate the extension of the FSE in 1996, at which point it was renamed the Fiscal Stabilization Fund (Fundo de Estabilização Fiscal, or FEF). This transitory array of measures would gradually be made permanent, renewed once again in 2000 under yet another name, the Disconnecting of Federal Revenue (Desvinculação das Receitas da União, or DRU). The DRU, in turn, would be renewed in subsequent years (2003, 2007, and 2011), ensuring the formation of a primary surplus for the federal government, a pool of funds whose use has been discretionary, in practice. In 2009, the educational sector was able to remove itself from the DRU, which boosted its budgetary resources considerably, making it an exception in terms of social programs. In June of 2016, the DRU was extended through 2023, this time at a rate of not 20 percent, but 30 percent.

33. The administration of Vice President Michel Temer is referred to as an "interim" government due to the fact that he came to occupy the presidency in mid-2016, when the democratically elected pres-

ident, Dilma Rousseff, was suspended in an impeachment process spearheaded by the Opposition.

34. The measure would now apply to budgets at all levels; previously, it had been limited to federal budgets.
35. When the result is negative post-DRU, part of the DRU at the federal level goes back to Social Security—that is, the government collects less than the 20 percent permitted by law.
36. For years with surpluses, the government even goes so far as to appropriate a value above the 20 percent legally established by the DRU.
37. The three levels of government are: federal (the legislative, executive, and judiciary branches, as well as the military), the states, the Federal District (capital of the Republic) and the municipalities. Most of the country's municipalities, however, given their small size, have their civil servants tied to the RGPS. There are 2052 municipalities under the RPPS, of a total of 5569, including all the capitals (MTPS). The creation or extinction of an RPPS depends on local law, and there is currently no legal framework establishing prerequisites for a viability analysis.
38. The Consolidated Labor Laws (Consolidação das Leis Trabalhistas, or CLT), created in 1943, is the code regulating all labor relations, in both rural and urban zones.
39. For workers with monthly remuneration in bracket 1 (R$ 880.00–R$ 1,556.00), the rate is 8 percent; for those with a monthly salary in bracket 2 (R$ 1,557.00–R$ 2,594.00), the deduction goes up to 9 percent; for bracket 3 (R$ 2,595.00–R$ 5,189.00), the rate is 11 percent.
40. For easier understanding, the denomination has been simplified here; it actually includes several categories of workers, including temporary workers, individual contributors, the specially insured, and the optionally insured.
41. Created in 2008, the category of the Individual Micro-Entrepreneur (Microempreendedor Individual, or MEI) includes around 250 occupations generally held by the self-employed. As an incentive for these informal workers to contribute to social insurance, a reduced rate was fixed of a monthly contribution of 5 percent on the minimum wage (as opposed to 20 percent), which is valid for salaried employees in general and for other categories of voluntary contributors. All small individual entrepreneurs working without partners and hiring no more than one employee, and whose gross

revenue in the previous year did not exceed R$ 60,000 (or US$ 16,240) are considered MEIs. Though classified as individual contributors, MEIs benefit from special treatment. Though their contribution rates are made more flexible, when they reach the age of compulsory retirement (an obligatory condition), they will receive the constitutionally stipulated social insurance floor of a single minimum wage. This explains why adhesion to the program has been so popular, going from 44,000 people in 2008 to 5.7 million in 2015, a relatively short period.

42. Small family farmers' contributions to the INSS should be levied by those who purchase their products (Art. 195, §8°). Their social insurance is often wrongly cast as an assistance benefit. This is due to the high incidence of contribution evasion, thanks to errors on the part of those who should levy the contribution.
43. In addition to the "specially insured worker" (a category exclusive to small rural producers working on family farms), rural social insurance also includes the categories "individual contributor" (rural producer and self-employed worker) and "rural employee" (worker who provides services of a rural nature to an employer on a non-sporadic, remunerated basis). For individual contributors, a 20 percent rate is levied on the base salary, while rural employers have 8, 9, or 11 percent of the base salary withheld and levied by their employer.
44. The law guarantees six months for salaried employees in the private and public sectors.
45. For formal workers earning up to 1.5 minimum wages per month.
46. Reclusion aid benefits the dependents of workers in "semi-open" or "closed" prison regimes who were contributing regularly to social insurance at the time of their imprisonment.
47. According to the law, the minimum period of compulsory contribution is 35 years for men and 30 for women; this requires that one have worked for at least 180 months. That said, those with a longer contribution time can combine it with a lower age (55 for women and 60 for men), or vice versa.
48. This rule does not substitute the two previous formulas for obtaining retirement benefits: (a) retirement due to age and (b) retirement due to contribution time.
49. The pension factor was meant to reduce the value of social security benefits at the time they were granted in inverse relation to the age of retirement of the policyholder. The lower the age of retirement,

the larger the reduction factor and hence the lower the value of the benefit.

50. According to the IBGE (Projeção da População por Sexo e Idade, 2000–2060), the average life expectancy in Brazil was 75.4 years in 2015.
51. DATAPREV, "Time Series Database."
52. The ideal number would be 13 months, since Brazil provides both employed workers and retirees with an annual bonus known as a "13th salary."
53. MTPS, Coordenação-Geral do Seguro-Desemprego.
54. Emenda Constitucional no. 20/1998.
55. Brazil had worked off an old system in which retirement benefits were granted to those who could prove that they had served for 30 years, albeit without regular contributions; it was eliminated.
56. Fagnani, "Política Social no Brasil (1964–2002)."
57. In the last trimester of 2015, average income for normal work was R$ 1,988.00 or US$ 513.50, per month.
58. Emenda Constitucional no. 41/2003. Already-retired civil servants, or those with an "acquired right" (i.e., those who are entitled to request retirement benefits, but prefer to continue working) continue to enjoy full benefits.
59. Retirees under the RGPS, in accordance with article 195, clause II of the 1988 Constitution, are not taxed on any portion of their retirement or pension benefits unless they start working again.
60. As of 2016, all those with retirement or pension benefits above the RGPS cap—R$ 5,189.00 (US$ 1,404.60) per month—were required to contribute 11 percent of the proceeds.
61. Civil servants with remuneration that falls below the RGPS cap may also contribute to FUNPRESP-Exe, but the federal government will not contribute matching funds.
62. Lei no. 12.618, from April 30, 2012, which established the Complementary Social Insurance Regime for Federal Civil Servants, sets the cap on the granting of retirement benefits and pensions at a level equal to that of the RGPS. The measure also authorized the creation of three "Closed Complementary Social Insurance Entities"—the official designation for the so-called pension funds—to manage the benefit plans for civil servants in the three branches of government.
63. Civil servants who continued to work despite qualifying for retirement had had the 11 percent compulsory contribution waived, as

an incentive. This measure was done away with in 2015, however, as part of the social cost-cutting that intensified as the recession deepened.

64. Constant December 2015 Reais, indexed by the IPCA.
65. Medeiros, Souza, and Castro, “O Topo da Distribuição de Renda no Brasil”; Lavinas, “ Notas sobre os Desafios da Redistribuição no Brasil”; Brito, Foguel, and Kerstenetzky, “Afinal, Qual a Contribuição da Política de Valorização do Salário Mínimo Para a Queda da Desigualdade no Brasil?”
66. According to the 2014 PNAD, 9.28 percent of the population was age 65 or older. IBGE projections estimate that by 2030, seniors may account for 13.44 percent of the population as a whole. IBGE, Projeção da População por Sexo e Idade.
67. IBGE, PNAD 2014.
68. Ibid.
69. Renta Dignidad, or Renta Universal de Vejez (Dignity Income, or Universal Old-Age Income), in effect since 2008, establishes the constitutional right to an individual, universal benefit approximately 30 percent of the national minimum wage for all those age 60 or older. On an annual basis, the benefit comes to US$ 340 (the monthly benefit is US$ 28). Estimated coverage among the target population is 91 percent, and there is no means test. It is complemented by a cash funeral allowance. It is financed with 30 percent of the revenue obtained by the direct taxation of hydrocarbons.
70. Arza, “Basic Pensions in Latin America.”
71. Huber and Stephens, *Democracy and the Left*.
72. This includes fixed-income funds, multimarket funds, stocks, and exchange funds, among others.
73. ANBIMA, Time Series Database.
74. Net inflow came to R$ 39 billion (US$ 10.1 billion). ANBIMA, Time Series Database.
75. Art. 201, clause III.
76. For more in-depth explanations, see Cardoso Jr. and Musse, “Seguridade Social, Trabalho e Políticas de Emprego no Brasil.”
77. Unemployment insurance only came to cover these rescued workers in 2002.
78. Previously, the benefit had provided 7 months of coverage; but the rule was changed in 2015.
79. On this front, see data in Chap. 2.

80. Krein and Biavaschi, “Os Movimentos Contraditórios da Regulação do Trabalho no Brasil dos Anos 2000,” 8.
81. Krein and Biavaschi present an excellent analysis of the many different ways in which employment was made more flexible under Lula’s first administration: in terms of the profusion of flexible work contracts, in the accelerated spread of variable compensation, and in a profusion of forms of outsourcing.
82. See Chap. 2.
83. Real December 2015 Reais, indexed by the IPCA.
84. Ministério do Trabalho e Previdência Social. Coordenação-Geral do Seguro-Desemprego, do Abono Salarial e Identificação Profissional.
85. Lavinas and Garcia, *Programas Sociais de Combate à Fome*; Lavinas, “21st Century Welfare.”
86. Lavinas, “21st Century Welfare.”
87. This meager program brought coverage to fewer than a million families, providing them with a single benefit of R$ 15.00 (US$ 4.10) per school-age child.
88. Something like 45 million people, or 22 percent of the population.
89. Lavinas et alii, *Percepções sobre a Desigualdade e Pobreza*, 70.
90. Bahia, “Financeirização e Restrição de Coberturas.”
91. This was the title of a talk given by public health physician Sergio Arouca at the opening of the 8th National Health Conference, which preceded the National Constituent Assembly (convened in early 1987). The Conference was a watershed in terms of the sector mobilizing around the creation of a public, universal healthcare system.
92. Ocké-Reis, *SUS, O Desafio de Ser Único*.
93. Santos, “Financial Literacy, Financialization and Neoliberalism.”
94. This variable is strongly correlated with high earnings in Brazil.
95. This trend would gain strength over the course of Fernando Henrique Cardoso’s term in office, with the institution of a public sector reform and the passage of the Law of Fiscal Responsibility.
96. Santos, “Financial Literacy, Financialization and Neoliberalism.”
97. This then became an exclusive source of revenue for the payment of RGPS retirement benefits and pensions, as explained in the section on social insurance.

98. Santos, "Financial Literacy, Financialization and Neoliberalism," 20.
99. Ibid.
100. Not even a bill proposed by the population, complete with two million signatures, was able to put this financing alternative up for debate. Marques and Piola, "O Financiamento da Saúde Depois de 25 Anos do SUS."
101. Here, waivers are defined as a transfer of public resources executed via the reduction of taxpayers' total tax liability.
102. Individuals may deduct spending on healthcare (treatment from doctors, dentists, psychologists, physical therapists, occupational therapists, speech therapists, lab exams, hospital stays, clinic treatment, and healthcare plans) from their taxable income.
103. See Table 4.1.
104. Receita Federal. Constant December 2015 Reais. It should be said that total federal spending on the healthcare system in 2008 came to almost exactly the same amount.
105. For example, the Sarney administration passed Decreto-Lei 7.713 in 1988, raising the cap for income tax deductions on healthcare expenses.
106. Lei no. 9.250/2005 stipulates that healthcare spending in its entirety may be considered tax-deductible.
107. Bahia, "O Sistema de Saúde Brasileiro entre Normas e Fatos."
108. Lei no. 11.302/2006.
109. Ocké-Reis and Gama, "Radiografia do Gasto Tributário em Saúde 2003–2013," data for 2013.
110. They are: (i) the individual income tax (IRPF) deduction on medical spending; (ii) the corporate income tax (IRPJ) deduction on medical assistance; (iii) the National Program for the Support of Oncological Assistance (PRONON) / National Program for the Support of Healthcare for the Handicapped (PRONAS-PCD); (iv) the Exemption on Contributions for Social Integration and Civil Servant Savings Programs (PIS/PASEP) and Contributions for the Financing of Social Security (COFINS), for medication production; (v) Zero PIS/COFINS taxation on pharmaceutical products and synthetic intermediates; (vi) the IRPJ / Social Contribution on Net Profits (CSLL), COFINS, and Employer Social Security Contribution (CPP) waivers for philanthropic hospitals.

111. Ocké-Reis and Gama, "Radiografia do Gasto Tributário em Saúde 2003–2013," 22.
112. Bahia, "Financeirização e Restrição de Coberturas."
113. ANS 2015. Atlas Econômico-Financeiro da Saúde Suplementar 2014.
114. Despite a satisfactory resolution rate of 87.4 percent, inconvenience costs and inefficiency remain just as high, with consequences for both clients and patients. ANS, Time Series Database.
115. Noronha and Pereira, "Dilemas para o Futuro do Sistema de Saúde Brasileiro."
116. Marques and Piola indicate that from 2000 to 2011, the federal government's contribution to SUS financing fell from 60 to 45 percent.
117. Emenda Constitucional 29/2000, only put into practice in January 2012, via Lei Complementar no. 141, establishes a constitutional minimum investment in healthcare. An important aspect of the law is that it provides a fairly precise definition of the content of healthcare activities and services, in an attempt to halt the divergence in standards of service, a characteristic of decentralization.
118. Emenda Constitucional 29/2000 also requires of the federal government that variations in healthcare spending follow that of the GDP.
119. Bremaeker, "As Despesas Municipais na Área de Saúde em 2014." This was the most recent year for which consolidated data were available at all levels of government.
120. In these calculations, resources transferred from the federal government to the states were deducted from municipal spending by area.
121. World Health Organization, "Global Health Expenditure Database."
122. At all levels of government.
123. Ministério da Saúde, Cadastro Nacional dos Estabelecimentos de Saúde do Brasil.
124. Pellegrini, "O que fazer com a Epidemia de Cesáreas no Brasil?"
125. Maternal mortality rates (per 100,000 live births) stood at 69 deaths in 2013 (whereas the average in the developed world is 3).
126. Adjusted for inflation by the IPCA.

127. This hypothesis emerged in the wake of a few tests carried out to measure the correlation between several forms of credit and the growth of retail sales. Consigned credit repeatedly appeared as a non-significant variable—hence, one not correlated to the progression of commercial sales. This counter-intuitive result, plus a few interviews, led us to investigate whether this form of credit might be more strongly associated to the acquisition of the goods and services which normally make up the core of the provision of public goods.
128. Bahia, "O Sistema de Saúde Brasileiro entre Normas e Fatos."
129. To name a few high-profile examples in the sector: Medial went public on the Bovespa in 2006; Amil, the reigning giant in the field, now owned by UnitedHealth Group Incorporated (UGH), did so in 2007; Dasa Laboratórios had gone public in 2004; and Laboratórios Fleury followed suit in 2009. For more information, see Bahia, "Financeirização e Restrição de Coberturas."
130. Lei 13.097/2015, art. 142.
131. Lavinas et alii, orgs., *Percepções sobre Desigualdade e Pobreza*.
132. Santos, "SUS: 25 Anos Profícuos de Resistência e Avanços Possíveis," 18.
133. Salm and Bahia, "Tênis, Bermuda, Fone no Ouvido," 116.
134. The breakdown here is not completely cut and dried, since many states offer college courses at state universities, while the federal government manages a few renowned primary and secondary schools.
135. This figure only covers direct spending, excluding expenditures on the FIES, resource transfers to the professional-training network Sistema S, and Ciência Sem Fronteiras.
136. This goal is to be achieved gradually: after 5 years, 7 percent of GDP should be in play, and spending should reach 10 percent by 2020, the end of the ten-year period. Other goals laid out by the new PNE are to teach all children to read and write by at least the end of third grade; offer full-time schooling in at least 50 percent of public schools; and boost the average educational level of the population ages 18–29.
137. Ideally, one should have completed middle school by age 14.
138. INEP, Observatório 2016.
139. This category includes preschools, primary, middle, and secondary schools, but not higher education.

140. INEP defines “adequate infrastructure” as treated water and basic sanitation, electricity, access to high-speed broadband internet, handicap accessibility, libraries, spaces for sports practice, access to cultural goods and art, and laboratories and scientific equipment.
141. In 1965, the military government allocated just 2.44 percent of GDP across all levels of education. Castellano, “Brasil: Proteção Social Pelo Endividamento?”
142. In “How Social Developmentalism Reframed Social Policy in Brazil,” Lavinas shows that enrollment in private schools to the detrimento of public ones increased in all income brackets throughout the 2000s.
143. Lei 5.172/66, mirroring the existing standard laid out in the Constitution.
144. Interest rate of 6 percent p.a., grace period of one year, and a repayment period of one and a half times the length of the financed degree.
145. Art. 206.
146. INEP, Observatório 2016.
147. IBGE, PNAD, various years.
148. INEP, Observatório 2016.
149. The ENEM was created in 1998. More recently, it has been used as a selection criterion for students wishing to enroll in public universities, those applying via the Quota Law, or those seeking a PROUNI scholarship or a student loan (from FIES). A minimum score is required.
150. Support Program for Plans to Restructure and Expand Federal Universities (Programa de Apoio a Planos de Reestruturação e Expansão das Universidades Federais, or REUNI), created in 2007.
151. Lei no. 12.711/2012.
152. There is no official data available with a race/color breakdown that might make it possible to analyze the racial distribution across the public and private networks.
153. Lei no. 11.096/2005.
154. Private institutions of higher education are divided into for-profit companies and philanthropic organizations; as they are exempt from taxation, they are obliged to set aside 20 percent of their slots for full-scholarship students.

155. Ministério da Educação, “Programa Universidade Para Todos – ProUni.”
156. Constant December 2012 Reais.
157. Average for the dollar in December 2012: US$ 1 = R$ 2.08.
158. Lei no. 10.260/2001.
159. Except for teacher training, pedagogical, and technology-related degrees, which were subject to an interest rate of 3.5 percent p.a.
160. See Annex.
161. The difference between Forbes’ estimate of Kroton S.A.’s market value and the data in Fig. 4.6 relative to the company’s net worth stems from the fact that these are two different concepts. Market value is obtained by multiplying the total number of shares by the current value of one share on the market. Net worth refers to the portion of the company left to shareholders once one deducts all liabilities.
162. Forbes Brasil, “Educação torna-se negócio rentável para acionistas no Brasil.” Average for the dollar in February 2015: US$ 1 = R$ 2.81.
163. GP Investments acquired a shareholding in Estácio in 2008, and Advent International invested in Kroton in 2009, for example.
164. The average for the dollar in 2014 was US$ 1 = R$ 2.35.
165. Data calculated from PNAD 2014 for adults ages 24–59.
166. Duarte and Mello, “Student Loans Impacts on Tuition Costs - Consequences of FIES.”
167. See simulations at several private colleges in Castellano 2016.
168. Borrowers are generally only required to have no default record, and must stipulate a guarantor earning at least the minimum wage.
169. Controladoria Geral da União, “Relatório de Auditoria Anual de Contas – Exercício 2014 - FIES.”
170. Afonso and Castro,“A crise (do financiamento) da saúde.”

Annex

Changes to the Legislation of FIES

	New FIES (2010–2014)	*Former FIES (2001–2009)*
Interest rates	3.40%	Between 3.50% and 6.50%
Deferment	18 months	6 months
Duration	3× the financed period + 12 months	2× the financed period + 12 months
Work-study	A possibility for public school teachers and doctors in the Programa Saúde da Família	N/A
Deferment during medical residency	Available	N/A
Maximum value financed	Between 50% and 100%	Between 50% and 100%
Maximum income	Gross family income of 20× the minimum wage.	N/A
Registration	Internet	Registration through the ministry of education during select dates
Suitability requirements for registration	Only from the guarantor	From the guarantor and the student
Alternative to guarantor	Fundo de Garantia de Operações de Crédito Educativo (FGEDUC)	N/A

Source: DIPES/MEC

CHAPTER 5

Lingering Brazilian Paradoxes

The Decline of Developmentalism Under the Aegis of Financialization?

Over the course of the preceding chapters, I have demonstrated the various forms, contexts, and directions taken by the process through which social policy is being subsumed by financialization in Brazil. We have seen that the trajectory of this phenomenon has been neither homogeneous nor linear, nor unambiguous. It has not entailed the full privatization of this or that sector for which provision was envisioned as public, and in whose service institutions were designed and mandated to guarantee the effectiveness of social policy. Nor has it completely eliminated citizenship rights; rather, it has restricted them, relegating them to a residual, devalued space in the social imaginary and within the scope of public policy and subsequently strengthening the logic of the market as panacea. This process thus foments the recommodification of the sphere of social reproduction, which is the antithesis of social policy under the previous regime of accumulation, which consisted of the public and corporate provision of a wide range of welfare cash benefits and decommodified services, particularly in advanced Western economies. This transformation is made possible by the promotion of financial inclusion, selling the illusion of economic democracy by means of differentiated access to personalized financial services and several modalities of consumer credit, the latter key to the strategy of incorporating the most vulnerable segments of the population into the market and into the so-called new middle classes.

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In sum, financial markets are making their presence increasingly felt in terms of the provision of healthcare, the guaranteeing of a measure of socio-economic security in old age and during temporary inactivity, the supply of educational options, in making access to housing a possibility, in providing access to well-being in general, and regulating and modifying the essence of private provision, albeit indirectly. “Business as usual” has come to social policy, and is redefining its forms and content.

The peculiar thing about it is that, from a distance, Brazil had seemed to be resisting the neoliberal wave. It entered the twenty-first century with the distinction of having broadened the scope of its social policies, raised social spending, and preserved a Social Security system that, though subject to an endless stream of reforms and attacks, had remained resilient, thanks to strong institutional roots.

A closer look reveals that the growing dysfunction of the social protection system, increasingly visible to the naked eye, is more than a simple problem of mismanagement or an ill-suited model. Rather, it is the symptom of mixed and contradictory dynamics on the part of, and through, the State. The developmentalist State wound up carrying out the task of the seizure of social policy through a variety of policies, programs, regulations, and, above all, finance-friendly deregulation, slowly but surely integrating it into a finance-dominated accumulation regime. Instead of resisting the logic of finance, the social protection system becomes a new frontier by which finance may disseminate new devices for risk management and mitigation, rendering the institutions and mechanisms that made it possible to prevent risks and cope with uncertainty through a risk-sharing system based on progressive taxes and social security schemes increasingly obsolete.

It is true that the process of the financialization of the Brazilian economy can be traced back to the early 1990s, when the policy of using high interest rates as a macroeconomic stabilizer began to hold sway, signaling a break with the previous accumulation regime; the public debt came to drive financialization and continues to do so. Subsequent years have only seen the strengthening of this rentier logic, which has interest-bearing capital as its driver—one whose power is only augmented by the maintenance of an orthodox policy of extremely high interest rates. The net effect of the policy is to hobble economic activity, as well as giving rise to other serious distortions, such as the ensnarement of households, small, and midsize businesses in chronic debt cycles.[1]

Financialization, meanwhile, would march onward and pick up speed starting in 2003, under the Workers' Party, as it came to engulf new areas in the field of social reproduction, going so far as to institute the collateralization of social policy. Once tied to credit, social benefits were pulled onto the merry-go-round of interest-bearing capital accumulation as a result of State intervention. This is the most telling paradox to emerge from a government which presented itself as center-left in order to gain power as an alternative to neoliberalism, and whose extreme willingness to intervene would ultimately mold itself to and serve the dynamic of rentier accumulation. Socially focused rhetoric was, from the start, tempered with a pragmatism that would bring about a transition to a mass consumer society without transforming social relations—and thus without blunting the privileges of the better-off or even remotely challenging them.

Thus did the rhetoric of "everyone wins" slide into the rhetoric of conciliation, flirting with the foundational myth of Brazil as a cordial nation. The Workers' Party, once in power, believed it possible to refound the nation by creating new social identities, ones forged not on bonds of collective belonging or communal solidarity, but rather on having a credit card, a personal bank account, or access to credit that might throw open the doors to the mass consumer market and make dreams of a house of one's own or a college degree possible. Ownership of a cheap car or other durable goods came to fight for space alongside holding a private healthcare policy (no matter the coverage) and enrolling in higher education (no matter the quality, nature, or real value of the degree). Mass indebtedness became a marker of "social inclusion," and the constant renegotiation of debt was cast as an alternative to marginalization. Households and individuals internalized the notion that financial markets and the dependence on credit could provide a response to their concerns and their needs. It is as if, to paraphrase Bourdieu, institutional and structural shifts had brought the process of the construction of individuals' *habitus* to be mediated by finance as well.

This may explain why, during the protests of June 2013 that filled the streets of the country's major urban hubs, where, at the very beginning, hundreds of thousands of people called for quality public services, free healthcare and education, and subsidized, efficient public transportation, the government was unable to correctly translate the desires and expectations of a population that seemed to be "out of place," working off the "wrong script." It was if the marches were somehow resisting a

new *habitus*, understood as adaptation and adjustment to the real world and to a new or revised social contract[2]—ultimately resisting the material, every day, increasingly banalized practices of what Ben Fine refers to as the "material culture of financialization."[3]

In her study of debtfarism, with Mexico and the United States as her examples, Soederberg emphasizes the ways in which the real meaning of financial inclusion was neglected by both academics and progressives in general.[4] They insisted on casting consumer credit as it functions under financialization in a role similar to that played by Keynesianism in advanced economies over the second half of the twentieth century. The reliance of Brazil's working poor on costly forms of consumer credit, alongside other connections to the financial sector, was also uniformly accepted, up and down the political spectrum, as a providential sign of narrowing gaps in the citizenship of the traditionally destitute. The steep, swift deepening of household debt was likewise not cause for concern, even as the vulnerability of low-income households took on unprecedented dimensions and came to reflect new contradictions; they were summarily ignored, since, after all, they served to attenuate latent redistributive conflicts. Brazil's recent experience also saw credit "perceived as class-neutral,"[5] an individual choice, completely removed from the context of the advance of financialization and its impact on the production of new forms of exploitation and vulnerability in terms of debtors' dependence on creditors.

Ben Fine had previously highlighted the indifference with which the consequences of the expansion of financialization have been met, while they provoke the erosion of public sector systems of provision (PSSOP). He questions, however, whether the burden of financialization falls primarily on the backs of low-income families deprived of social services and dependent on debts,[6] as Soederberg argues. In reflecting on how finance interacts with distinct forms of provision, he concludes that, unlike the fate met by fully funded pension schemes and policies for financing housing, conditional cash transfers[7] ultimately escaped the logic of financialization, sparing the poor from falling into the tangles of finance.

On one hand, the Brazilian case reinforces Fine's theory that, under financial neoliberalism, hybrid patterns of welfare provision ultimately prevail over ideal models of welfare regimes. At the same time, it contradicts his suggestion that certain social sectors were kept off the financial merry-go-round. In addition to their prevailing function, of solving market failures, conditional cash transfer programs aided the process of mass "bankarization" from the start, and then bolstered the progressive, growing

incorporation of the poor population (the target of such programs) into financial markets by way of special consumer credit lines, microinsurance, and microfinance initiatives. In this sense, conditional cash transfers became another cog in a sophisticated, ever-expanding machine, working to connect the formerly excluded to new financial markets. This process was facilitated by the developmentalist State, which acted as a guarantor for a new form of credit—income-linked loans—which were largely, as we saw, linked to public benefits (whether contributory or non-contributory) and salaries from the public sector.

The recent cycle of growth in Brazil thus saw the adoption of an array of policies and regulations that, rather than resuscitating and shoring up the existing social protection system—which was still in a phase of consolidation and subject to such ills as chronic underfinancing—plunged it deeper into the logic of the market and also broadened commodification via financialization and the collateralization of social policy. Creditors' legal rights would be expanded and strengthened via the efficient intervention of the developmentalist State. The creation of consigned credit at the end of Luiz Inácio Lula da Silva's first year in office, even before the launch of Bolsa Família, is a perfect example of how financial neoliberalism took on ever-greater prominence and depth, corroding the foundations of the social protection system in order to create another in its own image.

That social protection system would find itself increasingly vulnerable to a whiplash-inducing series of advances and setbacks that seemed to signal contradictory, confusing trends, as well as to targeted, specific reforms that quietly sapped rights and compromised the effectiveness of social policy. This strategy hit its stride when it managed to discredit public provision by trumpeting non-existent operational deficits (despite an increase in contributions to the system, given economic growth and the rising formalization of employment); demolishing the public healthcare system, which went from universal coverage to patchy coverage for those with no other options; and, given the unsatisfactory performance of the public educational system, encouraging citizens to opt for private schooling. In all these examples, what prevailed was the spurning of public financing in favor of a vigorously expanding variety of forms of private financing, made possible thanks to the dynamism of financial markets—and thanks to the intervention of the developmentalist State, which has normalized and regulated the process of financial inclusion for those once excluded or marginalized.

It is undeniable that redistribution was never made a priority under the tenure of the Workers' Party. It was not just that there was no room for a thorough, courageous tax reform that might have tackled the regressivity of the prevailing system. Rather, tax policies and tax regulations were honed to serve the logic of financialization through an active thrust toward more exemptions and tax credits in favor of businesses and rich households, concentrating wealth and power against the grain of the collective interest. The foundations for this turnabout had been laid long ago, between Lula's first and second terms.

This, however, cannot diminish the progress made in fighting extreme poverty. For the first time, tens of millions of people rose out of a realm of invisibility and were granted an income on which to survive—albeit quite a modest sum, and one not established as a right. The limits of the Bolsa Família program, however, are in keeping with the model of social minimums in play in the twenty-first century, and thus fly in the face of the constitutional principles that have regulated Brazil's social assistance since 1988. The international and domestic recognition of the program's success reflects the neoliberal standard of this kind of scheme.

Though the title of this book speaks of a paradox—that of a government which both marched under the banner of social policy and subjected it to the logic of financialization—the ambiguities that marked the Workers' Party's trajectory over the course of nearly 14 years were many and recurrent, sprung from the backbone of a development model based on the transition to mass consumption and the commodification of the social reproduction sphere and beyond, at the price of overlooking the structural ills responsible for the recurrence of underdevelopment and inequalities. Much was neglected: the contradictory path taken by the transformations that stemmed from neoliberal policies, which progressively altered the rules of the game and the makeup of political forces; changes in the international landscape, especially the deployment of globalization and financialization; the true support bases behind the structuralist model, which called for a massive volume and refined coordination of investments in the industrial sector, rather than simply betting that these would follow from consumption-led growth; and the belief that structuralist thought, in its classic formulation, would be enough to bring about structural transformations in an institutional context radically different from that of the 1960s and 1970s.

The formalization of employment went hand in hand with new forms of precarious jobs and a substantial rise in outsourcing, particularly in the public sector, which only undercut the quality and effectiveness of social

policies even more drastically. The reprimarization of the economy, in addition to representing a step back for a relatively dynamic, diversified industry—with devastating effects for the innovation system and labor productivity—strengthened the most conservative flanks of society. The vast modern oligarchies of agribusiness once again put the brakes on agrarian reform, contested already-settled demarcations of Indigenous lands, and, in spreading violence, incited the criminalization of social movements struggling to preserve their material conditions of social reproduction and defend the environment. The primacy of orthodoxy and pro-cyclical policies, guided by monetary austerity, stood in the way of any chance at turning around this structural backsliding. Attempts to increase public investment and prioritize the long term through the so-called Growth Acceleration Program (Programa de Aceleração do Crescimento, or PAC) succumbed under pressure from contradictory measures executed in parallel, as well as the apathy of the private sector; its insertion in the financial merry-go-round rendered it hostage to rentier accumulation. In terms of tax policy, there was never any attempt to overturn the rule, in place since 1995, which waives taxation on profits and dividends distributed to shareholders and companies. Brazil's singularity was preserved, repeatedly violating principles of tax progressivity by way of increases in tax credits and exemptions for capital and wealth.

The great differential for these apparently promising years was doubtless the real rise in the value of the minimum wage, with remarkable effects on the primary distribution. Most of the redistributive effects observed over this period stem from the success of this policy. While it was extremely important, it was also clearly insufficient; the rise in the minimum wage was a measure taken in almost complete isolation, absent a wider array of reforms befitting the scope and gravity of never-addressed redistribution deficits. It was also a policy of multiple facets, since it also fed the process of financialization as it facilitated the financial inclusion of millions of families of workers.

What path may be taken by the social protection system in Brazil, whose origins are rooted in values of universalism and solidarity? It is likely that the recent stretch of ambiguities and contradictions will give way to a conservative phase of greater coherence and uniformity, which will exacerbate the subsumption of social policy. The recession and the political crisis that led to the impeachment of President Dilma Rousseff, both disastrous in terms of defending Social Security and the rights enshrined in the Constitution, have been working to that end.

It is most probable that income transfers will continue to predominate over decommodified forms of social provision, in part because the push toward market provision entails the use of mechanisms that must serve as collateral in order to access the financial system. Constrained by financialization, public welfare services will sink in the direction of basic floors, adhering to a paradigm that has already been legitimated and is on its way to being put into place by international organizations. The ideology of "fight poverty first; for the rest, there's the market" is not likely to challenge large programs like Bolsa Família, but may lead to the reform of other initiatives such as the Continuous Cash Benefit (Benefício de Prestação Continuada, or BPC), where the benefit is tied to the minimum wage, placing it above a mere survival level.

Shocks and other risks inherent to the expansion of financial neoliberalism will be offset by new financial products increasingly dependent on income streams. This implies shifting from a vision of welfare to practices of workfare; incorporation into the job market and individual responsibility will become the rule for accessing public benefits, which will in turn see their scope pared.

A public debt driven up by the preservation of outrageously high interest rates will keep on bleeding resources from social areas, and is poised to worsen the trend. Public debt, credit, and the privatization of public services are pillars in the process of the financialization of the Brazilian economy.

Brazil 2016: Absent Progressive Reforms, a Political Sea Change Inaugurates Deeper and More Sweeping Neoliberal Policy Reforms

This book was concluded amidst the interruption of the mandate of President Dilma Rousseff, twice democratically elected to the presidency of the Republic. The impeachment that has removed her from power has overturned the result at the ballot box, where over 54 million votes reelected her in 2014, supporting a political platform that hung on pending promises and yet again was expected to confront neoliberal ideology.

It is true that the 2014 election produced a fragile result. The majority obtained by the Workers' Party's candidate was much slimmer than in the Party's previous successful presidential campaigns—in part because many of the demands that polarized demonstrators in June 2013 remained unanswered. Not even a much-ballyhooed political reform made it off the

drawing board, though the fraying of the political pact holding up Dilma Rousseff's administration had already become evident. The government hemmed, hawed, promised, and failed to follow through.

Once reelected to office in 2015, the President immediately opted for a complete break with the base that had given her a fresh vote of confidence. With the recession at the door and reports of corruption corroding the already-stained aura of a party that had once borne the mantle of redeeming the country from the ills stemming from colonization, the way out was to offer austerity policies, currying the support of sectors which, although once aligned with the government, were already jumping off the bandwagon.

The splits between the Workers' Party's social base, its government, and the party leadership were inevitable. The weakness of the President's position and the erosion of her authority made it impossible to maintain the old pacts holding together an extremely heterogeneous, fragmented, and then discredited coalition. This certainly accelerated the slide toward yet another request for impeachment—a practice often adopted by many an opposition party, it should be said, throughout the consolidation of Brazil's democracy. This time, however, the outcome was both unexpected and bore dramatic consequences, as it set off an institutional rupture, jeopardizing the democratic order.

In December of 2015, the Chamber of Deputies accepted the accusation brought by three citizens against President Rousseff,[8] for violations of budgetary law. In short, the argument was that she had contracted credit operations between the federal government and public banks in order to pay for social programs and for the Plan Safra,[9] without previously consulting the Chamber and obtaining its approval. The public banks did, indeed, advance resources—which the President's defense team argued were pending debts, paid at no cost to the Treasury. In practice, over the course of the period of the President's suspension, it became clear that the trial had taken a markedly political bent, with Rousseff's accusers charging her with crimes bereft of any proof. She was subsequently temporarily suspended from office, without any unequivocal evidence to show that she had indeed committed what the Brazilian constitution refers to as a "crime of responsibility," or high crimes and misdemeanors.

On August 31, 2016, in a context marked by open clashes on the streets and growing polarization, the Brazilian Senate approved the impeachment of President Rousseff, with a majority of 61 votes against just 20 opposed. Though thrown out of office, she preserved her political rights, which is

in itself a clear contradiction, suggesting that the Senate silently acknowledged that the allegations against her were unfounded. This event symbolizes the political defeat of a party which had been tasked by voters with transforming the country.

The new administration, led by former Vice President Michel Temer, has now been given formal legitimacy to reinforce the wave of neoliberal reforms hastened in during his stopgap mandate as interim President. These measures had been lurching along at discontinuous and contradictory paces within the sphere of social reproduction, accompanied as they were by more progressive elements such as the continuing rise in the real minimum wage (the most effective policy to be put in place by the Workers' Party), the creation of millions of jobs, and a large-scale poverty-fighting program. It is as if a period of ambiguities were giving way to a lockstep between ideology and practice, with no room for mediation.

The watchword guiding the actions of the Temer administration since the impeachment of President Dilma Rousseff may be summed up in the notion that "the Constitution does not fit in the budget." A quote from Finance Minister Henrique Meirelles, President of Brazil's Central Bank from 2003 to 2011, under President Lula, it has been uncritically absorbed by the media outlets supporting what is clearly emerging as a political coup. There are variations on the theme, such as the declaration that "the Republic that we created in 1988 has died, and the cloth from which it was cut can find no place in the 21st century"![10] The message is clear, unwavering, and unabashed: the social State put in place by the Constitution in 1988 is said to be incompatible with economic development, which calls for fiscal austerity.

The Temer administration has its sights set on shrinking citizenship, having declared it an obstacle to growth. The first steps in that direction have been institutional changes such as the elimination of the Ministry of Social Insurance. Pension policy and social insurance have been shifted over to the Ministry of Finance, which has thus been tasked with coordinating the reform of the public system of retirement benefits and pensions, currently underway. The proposals on the table include the introduction of a mandatory minimum contribution for rural beneficiaries, to be added to the percentage taken off the sale of their production. Conversely, the restoration of the mandatory contribution for agricultural exporters (currently exempt) does not seem likely to come about. A minimum age—the same for both men and women—will almost certainly be set for

the General Social Insurance Regime, rolling back the 85/95 rule and extending the mandatory contribution period. Likewise, pensions may be cut back in cases in which widows receive both pensions and survivors' benefits. Unemployment insurance has already been repeatedly cut and seen its rules modified, stiffening the eligibility criteria in the thick of a severe recession. Moreover, the administration plans to break with the rule of providing a real increase to the minimum wage annually, substituting that with an adjustment for the previous year's inflation. The conservative agenda has also mounted a strong campaign to untie the minimum wage from the social insurance floor and other social benefits, which may happen; consequences would be disastrous, leading to a significant upsurge in poverty rates and inequality.

This is one of the most important and controversial points of the labor reform currently under consideration—a set of proposals that is constantly breaking new ground, such as with the suggestion that negotiated settlements prevail over legal stipulations. From this angle, specific agreements between employer and employee may overrule existing regulation based on the Consolidated Labor Laws. There is talk of the elimination of the "13th salary" bonus and mandatory vacation time, and the adoption of unlimited outsourcing, which would open the door for increased flexibility for work contracts of all sorts. Even changes in security standards for the operation of machinery and equipment have been proposed as a way of easing labor costs.

The most controversial and worrisome measure yet, however, which is well on its way, having passed the Chamber of Deputies, is the so-called PEC 241, now become PEC-55, in the Senate. This proposed constitutional amendment would cap the rise in public spending each year, only adjusting for the previous year's inflation for a period of 20 years (2016–2036). That is to say, independently of economic growth and a consequent rise in tax revenue, there would be no real increase in social spending. Of course, this measure would checkmate the public healthcare system, already driven to infirmity by chronic underfinancing. At the same time, it would make it impossible to meet the goals set by the National Education Plan for 2014–2024. Preliminary studies[11] estimate that, if annual inflation remains at 4.5 percent (at the center of the Central Bank's target range), education will lose R$ 58 billion (or US$ 18.4 billion) in funding by 2025, while the healthcare system will hemorrhage a stunning R$ 654 billion (US$ 207.6 billion)[12] from 2016 to 2036. By 2036, social

spending will have fallen from its current level of 23% of GDP (2016) to a paltry of 12%. Cuts will inevitably become more arbitrary and severe, since they will be cumulative, reaching the state and municipal levels and other sorts of expenses. One example is the 45 percent cut in the "investment" category for federal universities, which is set to go into effect in 2017 and will certainly hobble the research and development system's chances of advancing and maturing. The developmentalist dream of a country with a cutting-edge, dynamic, modern, and innovative industrial system is becoming increasingly far-fetched. The future suggests that Brazil may be destined to remain peripheral.

Bolsa Família, meanwhile, has retained its place atop the heap. As a demonstration of the Temer administration's goodwill toward the poor, one of its first measures was to mandate a 12 percent increase in the various benefits that make up the program. Nothing that would pose a threat to the fiscal budget. Nothing to contradict the myopic vision that social policy is for poor people, and hence fated to be residual. For the others, the financial market will supply personalized, but restricted welfare provisions tailored to the income level of each.

The neoliberal bent of social policy has thus been reinforced, with the fight on poverty taking pride of place. Social policy has not been discarded altogether, but rather reshaped to serve finance-led accumulation. Financial markets will continue to underwrite the privatization of social services, only now with fewer restraints and with the blessing of a government of a frankly anti-social policy bent. Redistribution will remain marginal, both as an objective and in terms of its consequences.

It is clear that a turnabout of this magnitude will entail control of civil society, whose growing dissatisfaction, made manifest in a broad variety of forms of protest, has sparked reactions from the Temer administration in the direction of restricting freedom of expression and criminalizing everything that may question the new economic order and the new rules of the political game.

Backsliding in social policy and a greater dose of orthodoxy are doubtless the order of the day. The Social Security system is at stake and the 1988 Constitution runs the risk of being severely amended by 2018, crippling what had been a hallmark of the country's redemocratization process. Optimism in this context is simply impossible. A period of great challenges for Brazilian democracy is at hand—a time that may finally give the left and the progressive camp space for a long-overdue reflection, and to ask: if the path taken had been different, would the endpoint be the same? After all, there is no determinism in economics.

Notes

1. According to ANEFAC (2016), in July 2016, 59.7 million adults, or 29.5 percent of the total population, are in default. Of those, 2/3 earn up to two minimum wages.
2. Martin, *The Financialization of Daily Life*.
3. Fine, "Towards a Material Culture of Financialization."
4. Soederberg, *Debtfare State and the Poverty Industry*.
5. Ibid., 44.
6. Ibid., 19–20.
7. Fine, "Financialization and Social Policy," 16. "Conditional cash transfers, CCT, are significantly different from pensions in that they do not allow for ready incorporation into the process of financialization."
8. President Rousseff was accused of having committed "pedaladas fiscais," an accounting maneuver wherein the administration took out loans without Congress's authorization. This was said to have constituted "creative accounting," which, in the view of the Federal Court of Accounts, could undercut the credibility of fiscal policy. The practice was commonly used by both the Cardoso and Lula administrations.
9. Public loans provided to the agribusiness sector for harvest.
10. Besserman, "Morreu é Óbvio."
11. Guimarães, "Para Secretários de Saúde, a PEC que limita gastos deve tirar R$ 654 bilhões do SUS em 20 anos."
12. Estimate based on the exchange rate for August, 2016, where US$ 1 = R$ 3.15.

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