Texto para Discussão 029 | 2020

Discussion Paper 029 | 2020

Revisiting financialization drives in Brazil: the rise of stock markets

Lena Lavinas
Professor at the Institute of Economics at the Federal University of Rio de Janeiro.

Eliane Araújo
Associate Professor at State University of Maringá

Denise Gentil
Associate Professor at the Institute of Economics at the Federal University of Rio de Janeiro

Revisiting financialization drives in Brazil: the rise of stock markets[1]

October, 2020

Lena Lavinas
Professor at the Institute of Economics at the Federal University of Rio de Janeiro.

Eliane Araújo
Associate Professor at State University of Maringá

Denise Gentil
Associate Professor at the Institute of Economics at the Federal University of Rio de Janeiro

[1] Our thanks to master's student Pedro Rubin and doctoral student Ana Carolina Cordilha for their valuable contributions in collecting and organizing the data analyzed in this article. We also thank Flora Thomson DeVaux for the translation of our manuscript from Portugese.

Abstract

The present article seeks to demonstrate that, despite the steep deterioration in social and economic indicators in the midst of an unprecedented social, political, and economic crisis, Brazil has been through a new stage of the process of financialization, now shaped by the dynamics of the capital market. We briefly recall the different phases of financialization in Brazil from eliticized- to mass-based, underlining how the sharp decline in the prime rate as of late led to a strong valuation of financial assets in the stock market. We test the hypothesis of a new financialization pattern, now driven by the stock market, using in our regression model a sample of 81 different segments (non-financial) from the Economatica platform, from 2010 to 2019. The results indicate a change of command in the finance-dominated accumulation regime in Brazil, that is, corporate financialization is now also determined by the stock market valuation process, due to the fall in return on financial investments (notably government securities). Selic-driven financialization has been substituted by other forces, such as credit and – a relevant new factor – investments in shares.

Key- words: stock markets, corporate financialization, Brazilian economy

JEL cod.: E44, O11, O54.

Resumo:

O presente artigo busca demonstrar que, apesar da forte deterioração dos indicadores sociais e econômicos em meio a uma crise social, política e econômica sem precedentes, o Brasil atravessa uma nova etapa do processo de financeirização, agora moldado pela dinâmica do mercado de capitais. Lembramos brevemente as diferentes fases da financeirização no Brasil, de elitizada a massificada, destacando como a queda acentuada da taxa básica de juros nos últimos anos levou a uma forte valorização dos ativos financeiros no mercado de ações. Testamos a hipótese de um novo padrão de financeirização, agora impulsionado pelo mercado de ações, usando em nosso modelo de regressão uma amostra de 81 segmentos diferentes (não financeiros) da plataforma Economatica, de 2010 a 2019. Os resultados indicam uma mudança de comando no regime de acumulação dominado pelas finanças no Brasil, ou seja, a financeirização corporativa passou a ser determinada também pelo processo de valorização do mercado de ações, devido à queda no retorno das aplicações financeiras (notadamente títulos públicos). A financeirização movida pela Selic foi substituída por outras forças, como o crédito e – um novo fator relevante – os investimentos em ações.

Palavras-chave: bolsa de valores, financeirização empresarial, economia brasileira

JEL cod.: E44, O11, O54.

1 Taking stock of financialization in Brazil

In recent years, a significant and growing cohort of heterodox authors (Bonizzi 2014; Karwowski & Stockhammer 2017; Dos Santos 2013; Lapavitsas 2009; Becker et al 2010; Paincera 2009; Demir 2007, among others) have analyzed the peculiarities of the financialization of emerging economies, a process dubbed "subordinate financialization" by Bonizzi et al (2020).

Brazil has been the subject of studies – pioneering ones, albeit positioned outside of a global conceptual framework, in light of their focus on the process of domestic financialization – that sought to understand how domestic firms underwent financial integration. In an early analysis, José Carlos Braga (1985) was the first to capture the precocious financialization of the Brazilian economy, which had been underway since the mid-1970s. With the end of the so-called economic miracle, led by marked GDP growth, Braga indicates that households, companies, and banks began prioritizing the accumulation of financial assets to the detriment of financing productive investment – which would have meant tying up capital during a period of widespread uncertainty. As Bruno et al (2011) and Araujo et al (2012) have confirmed, this process was aided by the creation of institutional mechanisms for the monetary correction of prices and salaries that make it possible to compensate for past inflation, fueling its steep rise. The implementation of "indexed money" kicked off the process of financialization in Brazil, led in this first period by inflationary gains (Bruno et al 2011). While the process remained incipient throughout the 1980s and 1990s (Lavinas et al 2019), it would attract and benefit elites and non-financial companies, fortifying the growing protagonism of the banking and financial sector with grave consequences for income inequality and gross fixed capital formation (GFCF).

The Gini index[2], which had already reached a remarkable 0.58 in the early 1970s, rose to 0.61 in 1990 (Neri 2012). Meanwhile, a drop-off in investment exacerbated by the foreign debt crisis of the 1980s hampered the diversification of industrial production and marked

[2] Here, measured by income from main occupation for people over age 15.

the end of the developmentalist policies (Bresser-Pereira 2016) of the military dictatorship (1964-1985).

A historical analysis of the investment rate in Brazil reveals near-unflagging growth from 1930 to 1979, going from 9.67% of GDP to 23.4% over the period in question (IBGE, Contas Nacionais, historical series). This performance was stoked by political and legal decisions, among which macroeconomic policies designed to expand gross domestic fixed capital formation, expansionist fiscal policy, and low-interest, pro-credit monetary policy. These decades also brought a rise in the rate of public investment in the manufacturing industry, with the government deepening its intervention into the configuration of the country's productive system and its capacity for sustaining demand. This explains why the 1980s brought the peak of investments in Brazil.

What followed was a rupture in the pattern of Brazil's growth, as well as in state intervention in the economy. Starting in the 1990s, a macroeconomic regime based on neoliberal precepts, privileging price controls, worked to eliminate mechanisms for economic intervention, pared back public investment, and curtailed not only private investment but also growth, as seen in the modest expansion of Brazilian GDP after the return to democracy (1985). For years on end, austere inflation-control targets were used to justify sky-high real interest rates, sparking the second phase of financialization in Brazil – now rooted in interest-based and other financial incomes (Bruno et al 2011).

The latest front for financial accumulation became derivatives and fixed-income securities tied to the public debt, at nominal and real interest rates that were much higher than their international counterparts (Araújo et al. 2012).

While the first phase of financialization, driven by inflationary gains, was necessarily limited and circumscribed to the elite by virtue of the low degree of financial inclusion and bankarization prior to the eve of the 21st century, the advent of the 2000s brought a new model for financialization, rooted in interest-bearing capital, and also saw it take on an entirely new scope. Mass financialization (Lavinas et al 2019) was also boosted by a major expansion in credit under Workers' Party administrations (Lavinas 2017) and subsequent acceleration in the indebtedness of non-financial companies – and, above all, households, an unprecedented phenomenon in Brazil.

In parallel, the chronic underfinancing that has compromised the quality and coverage of a broad range of public services in healthcare and education, to say nothing of repeated alterations to the pension system, has driven those able to pay (or those able to go into debt – therein lies the innovation) into the arms of the financial market. The transformation of social policy into collateral (Lavinas 2018) has fed the process of indebtedness that ballasts rentierism even as it facilitates the re-commodification of the sphere of social reproduction, converting the middle and working classes into consumers of an endless variety of financial products and services.

The collateralization of social policy means cutting the transactional costs and the risks inherent to the expansion and diversification of financial markets. Hospitals, laboratories, healthcare plans, and private colleges came into the sights of major international and domestic capital-market investors. This meant that the provision of services – once the constitutional duty of the State – was given a new priority: shareholder profit. In the Brazilian case, those shareholders were major international financial groups. Slowly but surely, fund managers became the indirect managers of social policy (Lavinas & Gentil 2018).

This phase of mass financialization, the defining characteristics of which are by no means exclusive to Brazil, but rather dovetail with others under a regime of accumulation dominated by global finance, stretches over two decades but gains steam after 2004. This is when a new phase of economic growth, driven by the commodities boom and the expansion of credit-fueled mass domestic consumption, brings a slight uptick in productive investment, which rose to 21.1% of GDP in late 2013. The recovery, however, would be short-lived; the slowdown of economic activity and subsequent exacerbation of the redistributive conflict would pave the way for a dire political crisis, culminating in the impeachment of then-president Dilma Rousseff (August 2016). This led to a new dip in the investment rate, which had sunk to 15.4% of GDP by early 2020 (IBGE, Contas Nacionais, historical series), the lowest in fifty years.

In parallel, levels of inequality underwent a similar deterioration. Despite real increases in average earnings from 2004 to 2013, thanks to the expansion of formal jobs, the indexation of the minimum wage above inflation and a better coverage of welfare schemes, the Gini coefficient regressed significantly from 2015 onwards, due to the worst recession ever experienced by Brazilians. The reversal of the trend is explained by the fact that the lower quintiles of the distribution experienced a considerable decline in their household income, especially the lowest one (-11.5%), while the top quintile registered a real increase of 6% (Lavinas 2020). Anti-poverty programs like Bolsa Familia were slashed as part of drastic budget cutbacks in response to the recession, failing to offset income losses among the most vulnerable. In 2019, the Gini index[3] reached 0.54 (IBGE PNADc 2019) as compared to 0.49 in 2014 (IBGE PNAD 2014), which had been its best performance since data collection began in Brazil.

In parallel, as Fellows (2019) has demonstrated in an analysis of the behavior of over 550 non-financial Brazilian companies, the financialization of such companies deepened between 1995 and 2018. The author locates one of the causes of this in the search for financial investments as a replacement for productive investments which brought lower returns during certain periods, especially at times of sluggish economic growth. Secondarily, non-financial companies' access to financial markets (whether directly, through internal management changes, through participation on business councils, changes in management incentives; or indirectly, through an increase in the company's market value given access to credit lines and greater liquidity) led them to put the lion's share of their resources toward financial assets, compromising their productive investments.

Similar conclusions may be found in Feijó et al (2016). Upon examining the relationship between financial integration and structural change, the authors observe that in the case of Brazil, the financial liberalization that followed the opening of the Brazilian economy in the 1990s did not strengthen industry in the production structure. On the contrary, they associate Brazil's premature deindustrialization to a growing dependency on foreign savings, which entailed maintaining high real interest rates and non-competitive real exchange rates. As a result, the macroeconomic context failed to stimulate capital accumulation, and incentivized the financialization of non-financial firms.

[2] Calculated using average per capita household income.

The present article seeks to demonstrate that, despite the steep deterioration in social and economic indicators in the midst of an unprecedented social, political, and economic crisis, this period saw a new stage of the process of financialization in Brazil, now shaped by the dynamics of the capital market. The most severe contraction in the Brazilian economy in the past century, marked by a deep recession in 2015-2016 (negative GDP growth of 7.2%), followed by three years of economic stagnation (growth of around 1.1% p.a. for the 2017-2019 period), with an international context of near-zero interest rates, led to a shift in macroeconomic policy. The prevailing economic paralysis dispelled the myth of the Brazilian Central Bank's base interest rate as an anchor of stability. The Selic prime rate was knocked down to record-breaking lows, compromising the rentier profits indexed to it, which embodied the long-standing, powerful coalition of rentier and financial interests (Bresser et al 2019; Lara Resende 2017; Eber 2011) at the helm of the Brazilian State. A new phase of corporate financialization (Erturk 2020) was ushered in, marked by competition amongst firms now taking place on the capital market, now focused on the valuation of their financial assets.

2 Amidst multiple crises, the stock market surges

Ever since the era of major privatizations under the Cardoso administration (1994-1998), which took place at the same time as the financial opening of the Brazilian economy, the performance of the country's capital market had been kept in check. As shown by Freitas and Prates (2001), by reducing the then-existing barriers to foreign portfolio investment in the domestic financial market and making it easier for residents to access new forms of external financing, the Cardoso administration had hoped to stimulate the primary market by lending greater dynamism to stock markets, in step with the nation's financial opening and the possibility of investors participating directly in the market. Even so, "the Brazilian stock market remained a marginal source of financing for Brazilian companies" (p. 92).

According to the authors, not even the development of the secondary market had a significant effect on the primary market. Factors both abroad and at home, they argue, worked from 1998 onward to foil attempts to boost the value and attractiveness of the Brazilian stock market. On the foreign front, institutional investors' steps toward emerging countries in a move to diversify their portfolios were halted by the Russian and Asian crises, as well as the emergence of a high-risk local market for American investors, who fled Bovespa and returned to the domestic exchanges. On the Brazilian front, the imposition of taxes on foreign exchange operations disincentivized stock purchases via Bovespa, while national blue chips began trading on the American stock market as American Depositary Receipts, or ADRs.

In Cardoso's second term, however, the implementation of stricter standards for transparency and corporate governance post-2000 (which marked the birth of Bovespa's Novo Mercado, or New Market) and the reform of Brazilian corporate law in 2001 extended more protection to minority shareholders and made way for a new stage of capital-market expansion and consolidation.

When the Workers' Party came to power in 2003 with Lula da Silva's election to the presidency, one of the administration's goals was to encourage pension funds to participate in the capital market. This evidently entailed an increase in the number of individual capitalization accounts, deepening the pension reform begun by Fernando

Henrique Cardoso. Under union management, pension funds, investment funds and open pension funds would play a key role in fundraising by broadening internal savings, the idea being to finance private investment and promote a new cycle of economic growth (Soria and Silva 2012).

Indeed, from 2003 to 2010 (spanning Lula da Silva's tenure), the capital market swelled, with 128 companies going public. On the regulatory front, a reduction in the tax on capital gains for variable income funds (from 20% to 15%) and a tax waiver for monthly stock sales under R$20,000 drew new investors to the Brazilian stock market. Moreover, the Securities Commission expanded its oversight of market agents and passed regulations that promoted transparency and ensured higher-quality information from companies, providing investors with a greater degree of security (Da Costa, 2010).

However, capital market dynamics did not progress as expected post-2010. The relatively high level of the Brazilian base interest rate was chiefly responsible, as it made government bonds far more lucrative than other assets, as well as inherently safer. Meanwhile, broadened credit concessions with rates heavily subsidized by the Brazilian National Development Bank (BNDES) after 2010 made companies less tempted to raise funds on the capital market.

The continually high Selic rate over this period was a boon for pension funds and fully-funded schemes, which were soon the largest holders of federal public debt. While they had held 17.7% of such assets in 2007, by 2018 they had accumulated 24.5% (Brazilian Central Bank, 2019). The result was a lack of the hoped-for long-term funding for investment, since over 90% of their equity went toward fixed-income securities (Gentil, 2020).

In order to characterize the advent of the capital market as the new driving force behind financialization post-2016, we should observe the behavior of a few key related variables. Panel 1[4] follows the evolution of the base interest rate; the expansion of personal credit,

[4] Multiple scales made it impossible to compile all the data into a single graph – hence this panel arrangement of multiple graphs.

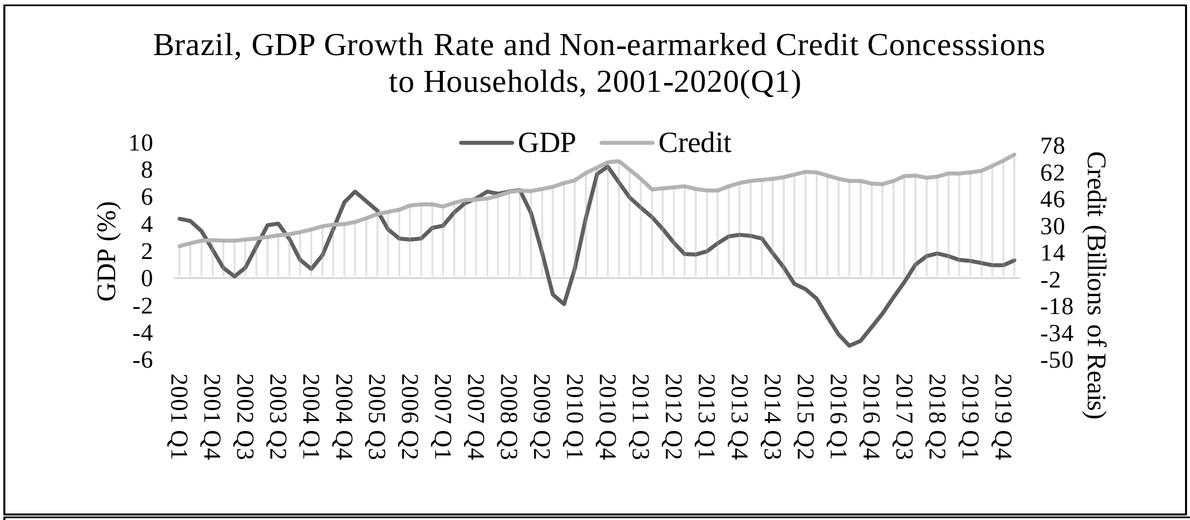
as expressed in the volume of new loans; and IBOVESPA,[5] the Bovespa Index, vis-à-vis evolution of GDP for the period 2002-2020 Q1. The underlying database is quarterly and drawn from a variety of sources.

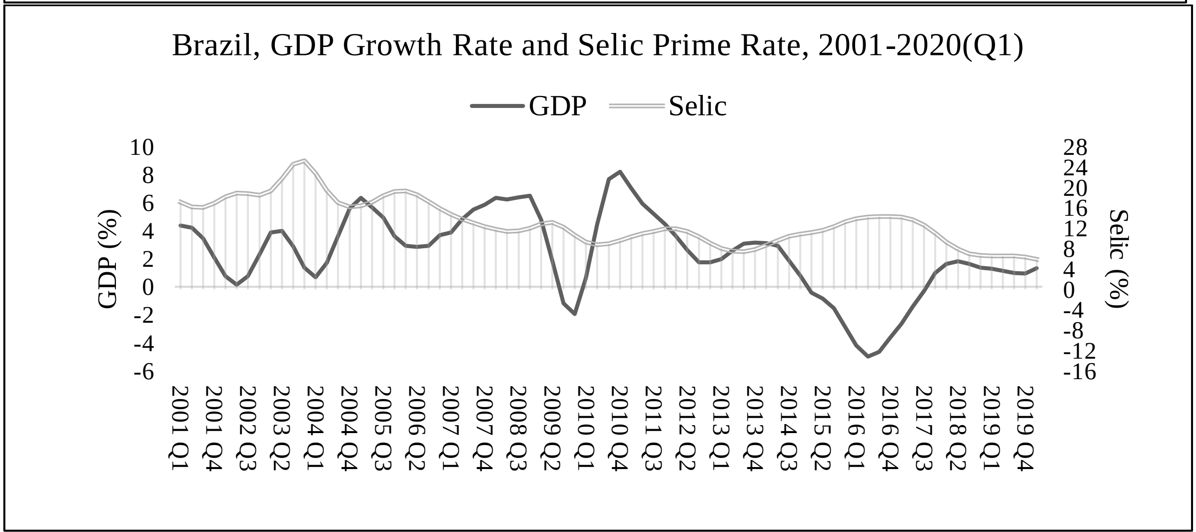
One initial observation is the correspondence between the trend toward increased credit and positive variation in the Bovespa Index over time, a few plateaus and valleys over time notwithstanding. On the contrary, the Selic has traced a downward trajectory, with the exception of a few notable spikes in 2009, during the global financial crisis, and in 2013, when Dilma Rousseff's administration failed to stimulate economic growth.[6] However, the largest spike in the base interest rate would come amidst the punishing recession of 2015-2016, after which it continued to fall apace.

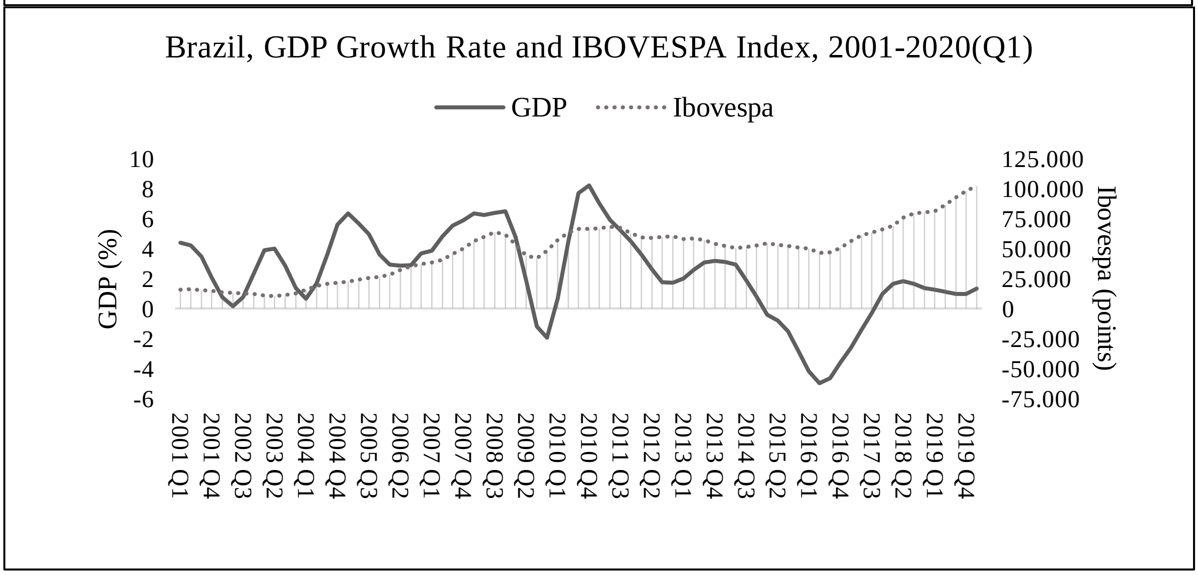
[5] The Bovespa Index represents the average performance of leading shares traded over recent months on B3 S.A., the São Paulo stock exchange. According to B3's website, the index "is comprised of stocks and units of companies listed on B3 that meet the criteria described in its methodology, accounting for about 80% of the number of trades and the financial volume of our capital markets."

[6] The so-called macroeconomic matrix tried unsuccessfully to stimulate the economy through a combination of three economic policy instruments: low interest rates, devalued currency, and cost-cutting, the latter associated with massive tax breaks that favored capital (Lavinas 2017; Lavinas & Gentil 2020).

Panel 1







Source: Source: authors' elaboration. Data: Brazilian Institute of Geography, Statistics and Brazilian Central Bank and Brazilian Mercantile & Futures Exchange (BM&F). Quarterly moving averages

Of particular interest is the contrast between the trajectories of the Bovespa Index and the Selic rate in 2016-2017. As the graphs in the panel indicate, while transactions on the stock market ballooned – reaching the 100,000-point mark for the first time, in July of 2019 – the Selic rate began a remarkable slide, down to a historical minimum of 4.2% in the first trimester of 2020.[7] These directly opposed trajectories signal changes in investors' preferences vis-à-vis the financial market, given the deterioration of the macroeconomic context. Personal credit also begin to bounce back after January of 2017, tracking along with a fleeting economic recovery. This should not be taken as a sign of more affordable financing, as the spread on personal credit in relation to the Selic rate remained practically untouched, an average of about 30 percentage points above the Central Bank's base rate (*Brazilian Central Bank, Relatório de Mercado Focus* 2020:44).

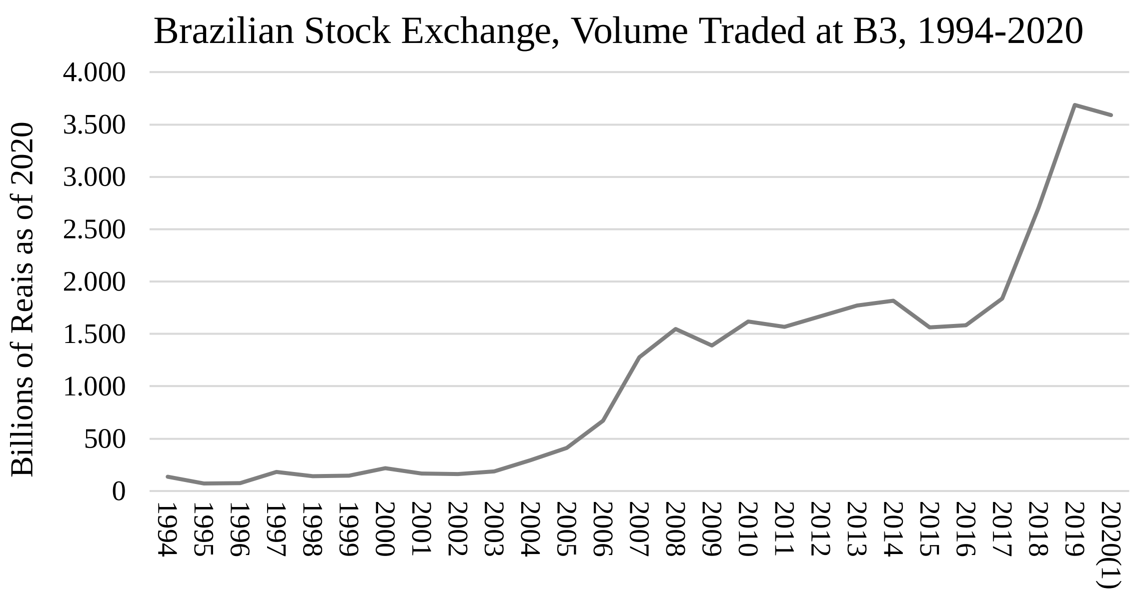
This change of command in the finance-dominated accumulation regime would seem to indicate that the fall in return on financial investments (notably government securities) remunerated by the Central Bank's base interest rate has reconfigured the logic of financialization, a shift that calls for explanations.

[7] The Selic rate's downhill skid would hit a new record in June 2020 – 2.25% – in the thick of the crisis provoked by the coronavirus pandemic.

3 An empirical investigation into the different waves of financialization in Brazil

The convergence of capital around B3 S.A. (the Brazilian stock exchange) in recent years may be seen in its remarkable performance (figure 1) beginning in 2016. In 2003, the first year of the Workers' Party in the presidency, the total volume of financial assets traded on B3 was a modest R$186 billion. In just four years' time, that figure would pass the R$1 trillion mark, hitting R$1.2 trillion in 2007. After a ten-year lull, the stock market became newly attractive, repeatedly trending upward from 2017 on. In 2019, total trades stood at R$3.6 trillion, yet another record.

Figure 1



Source: Economatica Time Series. Authors' elaboration. Constant values as of July 31 2020 adjusted according to the Extended National Consumer Price Index - IPCA. (1) Data from 01/01 to 05/08/2020.

Indifferent to the devastation wrought by COVID-19 in Brazil since March of 2020, the capital market remains financial capital's preferred destination: in the first six months of 2020 alone, it saw movement of R$3.6 trillion, which had been the record-setting total of the year before (*Insights*, 2020).

How to explain such dynamic performance amidst such crushing crises, tens of millions unemployed, massive capital flight,[8] and scrapped promises of a new cycle of growth?

As indicated above, the most relevant factor would seem to be the monetary policy of low interest rates. With real short- and long-term interest rates in freefall in Brazil and in core countries, the stock market has become the latest route to profitability for financial capital.

Furthermore, lower interest rates encourage companies to take out loans to buy back their own shares and/or invest in other companies' shares. In the first case, the goal is to reap profits for their own managers, who are remunerated through those stocks, as are their shareholders. In the second case, the aim is to bring in speculative profit from the stock market. In this new phase of financialization, rather than promoting productive investment by companies, rock-bottom real interest rates have reinforced shareholder gains and undermined the recovery of the real economy.

It should be emphasized that international financial conditions played a crucial role in cementing this trend. Policies of quantitative easing and near-zero interest rates in developed economies fed demand for higher-risk shares, boosting foreign investors' acquisitions of shares on the Brazilian stock market.

This shift in the role of public banks (deprived of their leading role as financial agents of development) and the deepening of the neoliberal agenda (taken to even more radical lengths in the post-impeachment period), meanwhile, encourage firms in the productive sector to replace subsidized public credit with fundraising on the capital market, the result being an expansion of follow-on offerings.

The acceleration of mergers and acquisitions – or, in other words, of the process of concentration and financialization – has tended to increase high-income households' asset liquidity, leading to new turnover of that capital on the stock market.

[8] Between January and July of 2020, net foreign-capital outflow from the B3 was on the order of R$81.4 billion (*Valor Econômico*, 28/07/2020).

Fiscal policy rooted in the logic of "expansionary austerity" (Alesina and Perotti, 1995; Giavazzi and Pagano, 1990) exerts an important influence over the optimism of the financial market. The core concept is that financial austerity would be able to improve agents' expectations and boost the confidence of the private sector, thus reducing interest rates and driving new consumption and investment. With that objective, a 2016 constitutional amendment established a cap on public spending and investment, freezing expenditures (zero real growth) for twenty years, regardless of rates of growth or fiscal space.

This sharply contractionist agenda took in labor (2017) and pension reforms (2019), which raised expectations around growth in publicly traded companies' profits – the idea being that the deregulation of the labor market and scantier pensions would cut payroll and social protection costs. Larger profit margins would supposedly boost private investment, theoretically expanding GDP and spurring on the performance of the capital market.

One of the aims of this section is to investigate the various determinants of the process of financialization of Brazil between 2010 and 2019. It is assumed that the fall in return on financial investments in public securities, given the drop in the Selic interest rate provoked by the economic crisis, causes a rupture in the former financialization regime – which had been driven by the variable in question. The result is a new stage of Brazilian financialization, now led by the extension of credit – in this case, to companies, and by the flow of capital into the Brazilian stock market (B3).

Consequently, when looking at the three basic forms of fictitious capital (Durand, 2020) that create financial profit, public debt seems to have taken a back seat in favor of private debt (taken out by companies and households) and capitalization on the stock market starting in 2017.

Data were drawn from Economática, a platform which is constantly updated with the most recent figures from the financial market and allows users to systematize a large volume of information about companies listed on B3 S.A. (the former Bovespa). The present study made use of the platform's division by sectors, examining 81 different segments from 2010 to 2019 on an unbalanced data panel. Only non-financial companies were included.

With this objective, a dynamic panel data model was considered using the generalized method of moments (GMM) proposed by Arellano and Bond (1991), which is appropriate in cases involving i) a linear functional relationship; i) a lagged dependent variable, which means a dependent variable influenced by prior values; ii) potentially endogenous explanatory variables; iii) individual fixed effects; iv) heteroscedasticity and autocorrelation within groups of individuals; and v) the possibility of "internal" instruments based on their own lagged variables.

The estimated model attempts to capture the various determinants of financialization in Brazil, as summarized in the following equation:

$$Fin = \alpha_i + \beta_{1_{it}} re\_fin + \beta_{2_{it}} div + \beta_{3_{it}} GDP + \beta_{4_{it}} drive + u_i$$

Where *Fin* is the variable that stands for the process of financialization in Brazil, given by the relationship between financial assets and companies' net equity; *re_fin* is companies' financial revenue; *div* is the companies' short-term debt; *GDP* is the GDP growth rate; and *drive* represents the driving force behind financialization in Brazil. Here, 3 models will be estimated, each with a different drive: *selic* in model 1, *credit* in model 2, and *Ibovespa* in model 3.[9] α is the constant and β are parameters that capture the relationship between the explanatory variables and the proxy for financialization; *i* stands for each sector on Economática (1 to 80)[10]; *t* is the annual period of time, and *u* is random error.

Table 1 shows that the explanatory variables were statistically significant in explaining financialization, with the exception of the variable for financial revenue. An increase in

---

[9] A full description and the sources for each variable in the model may be found in the appendix, Table A1.

[10] Note that Economática has 81 segments; we opted to exclude banks from the model here. Nevertheless, models were estimated for the database with and without the presence of banks in the sample, and the results did not change significantly: the main result was to reinforce the negative effect of GDP on financialization. Note that the econometric model used here is efficient even in light of the endogeneity bias present in the relationship between GDP and financialization.

economic growth is seen to reduce financialization, which may be explained by the fact that increased activity in the real economy would reflect an increase in productive investments by companies, instead of financial investments. The short-term debt variable, meanwhile, appears tied to a rise in financialization; in a scenario of falling interest rates, companies turn to debt to buy back their shares (and thus secure future appreciation) and speculate on other companies' shares.

As for the multiple variables chosen to act as the drivers of financialization, the model's results confirm our hypothesis that in recent years, Selic-driven financialization has been substituted by other forces, such as corporate credit and – a relevant new factor – investments in shares. This may be observed by the non-significant coefficient of the "Selic rate" variable, and by the positive and significant coefficients of the "corporate credit" and "Ibovespa" variables.

It is noteworthy that all models were robust and that Sargan's test, which is used to identify whether the constraints of a model are valid, confirmed the validity of the instruments used in the models.

Table 1 – The determinants of financialization

	Model (1)	Model (2)	Model (3)
VARIABLES	L.fin	L.fin	L.fin
l.logfin	0.352***	0.263***	0.277***
	(0.082)	(0.084)	(0.083)
logre_fin	0.007	0.010	0.032
	(0.101)	(0.098)	(0.098)
logdiv_cp	0.132*	0.144*	0.139**
	(0.069)	(0.077)	(0.067)
l.gGDP	-0.033**	-0.031**	-0.043***
	(0.014)	(0.014)	(0.012)
l.logselic	-0.101		
	(0.178)		
l.logibovespa		0.674***	
		(0.211)	
l.logcredt			1.072***
			(0.365)
Constant	-4.182***	-4.526***	-4.803***
	(1.009)	(1.079)	(0.945)
Observations	428	373	428
Number of sectors	65	59	65
Sargan test	35.61	35.42	32.57
Prob.	0.12	0.12	0.21

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The model confirms our hypothesis that beginning in 2017, corporate financialization entered a new phase in Brazil. The nation’s path out of the wrenching crisis in which it had found itself since 2015 did not involve an attempt to restore growth through productive investment and innovation, but rather deepened and broadened the scope of financialization. As Ismael Erturk (2020) has described, non-financial Brazilian firms also began turning their backs on product market performances, such as sales growth, and shifting their competitiveness “from production cycles to the external stock market valuation process” (p.44) – none of which promoted growth, rates of which remain anemic.

Similarly, Brazil became host to what Erturk (2020) refers to as the “cultural economy of corporate financialization,” popularizing the logic of shareholder value primacy. It should be said that individual investment in B3 has counterbalanced the decline in institutional investment and foreign capital outflow (*Valor Econômico*, 06/09/2020). Local investors have been the main drivers of the Brazilian stock market. As in other countries, Brazil has seen low-income small shareholders flock to the stock market in hopes of short-term equity gains. The shareholder value logic has spread with such alacrity that even Rio de Janeiro's favelas are seeing their own brokers.

Favela investment initiatives are flourishing, helping the most vulnerable make their money work for them and, with any luck, make big money. Such is the case with "Favelado Investidor" (*Valor Econômico* 02/05/2020), a You Tube live-streaming broadcast run by two young favela residents, whose portfolio is mainly concentrated in equities (85%), with marginal investments in Treasury bonds (10%) and in real estate investment funds (5%). The choice is based on the idea that equities betting is worth it if you make good value bets. It may be risky, but, according to the brokers, rapid valuation is what can attract minimum wage-investors and very small businesses. What is the moral of the story? That capitalism "is the only system that offers people a way out of poverty"! In other words, the ascendency of shareholder value has already tarnished many minds.

4 Concluding remarks

What lies ahead for Brazil, now devastated by an unprecedented health crisis, with one of the worst performances in the world in managing the coronavirus pandemic, second only to the United States? By early August 2020, the official number of deaths caused by COVID-19 stood at 100,000; in the span of five months, confirmed cases have exceeded 2.8 million. While stunningly high, these figures are notoriously underestimated, given the near absence of testing. The true situation is thus even more worrisome, raising doubts as to the speed and quality of the post-pandemic economic recovery

The denialist attitudes of the country's far-right president, Jair Bolsonaro, have thwarted coordinated action between spheres of government in the fight against the pandemic and directly contributed to this devastating result. Moreover, the federal government deliberately sat on top of the bulk of the emergency funds approved by Congress to meet the needs of the public healthcare system in terms of equipment, medication, and personnel. The nation now has 5 ICU beds in private care for every one in the public system, which treats 75% of the population without healthcare plans. With private ICU beds lying empty, a single-queue proposal arose, envisioning shared management of hospital capacity under public control. Nevertheless, the idea was rejected by the private sector.

The capital market, meanwhile, inhabits a world set apart from the pandemic and the recession. The collapse of B3 in mid-March 2020 (figure 1), at the same time as the first COVID-19 fatality in the country, seemed poised to definitively interrupt a virtuous cycle begun 3 years earlier in which the stock market had become the latest driver of financialization in a stagnant economy, against a backdrop of rising inequality and falling productive investment. But a V-shaped recovery was soon underway: from January of 2020, when Ibovespa hit a historic high (119,527 points) to mid-July 2020, accumulated losses stood at just 18.3%.[11]

[11]https://valor.globo.com/financas/noticia/2020/06/09/bom-humor-global-mantem-ibovespa-em-recuperacao.ghtml

Following a 7.8-fold rise in the volume traded by companies involved with medical, hospital, analytical and diagnostic services between 2010 and 2019 (at April 2020 prices), that dynamism has accelerated in 2020. The first semester of the year had already seen trades on a financial scale equivalent to 70% of 2019 (B3 S.A., www.b3.com.br), boosting the sector to 12th place in terms of highest average daily financial volume on the Brazilian market, out of all non-financial companies – an unprecedented feat in the story of B3 S.A. Stocks in companies linked to wholesale medication sales, medical laboratories, outpatient health services, and the production of medications, equipment, and material have emerged as an instrument of the monetization of wealth even as the ongoing public health crisis surges, in spite of the drop in productive investment in those very sectors and the daunting needs of the majority of the Brazilian population, who lack the means to acquire healthcare plans.

For its part, economic policy has been inept, sluggish, and insufficient in tackling financial speculation and the current calamity. Even without the handcuffs of the spending cap – which has been suspended for the moment – policy is still an ideological hostage of fiscal austerity by another name. On the monetary front, the interest rate continues to slide, now at a nominal rate of 2%, further fueling speculation on the capital market and laying the groundwork for the third phase of the hegemony of financial capital. While poverty and unemployment sweep across the country, the assets of the wealthy multiply in the shadow of one of the most regressive tax systems in the world, marked by one exceptional feature: in Brazil, dividends are tax-free.

References

Alesina, A., Perotti, R. 1995. Fiscal expansions and adjustments in OECD countries. *Economic Policy*, Volume 10, Issue 21, October, pp. 205–48.

Araújo, E., Bruno, M., & Pimentel, D. 2012. Financialization against Industrialization: a regulationnist approach of the Brazilian Paradox. *Revue de La Régulation. Capitalisme, Institutions, Pouvoirs.*

Arellano, M. and Bond, S. 1991. Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *Review of Economics Studies*, no. 58, pp. 277-97.

Banco Central do Brasil. Relatório de Mercado Focus. Available at: https://www.bcb.gov.br/publicacoes/focus. Access in May 2020.

Banco Central do Brasil. Sistema Gerenciador de Series Temporais. Available at: www.bcb.gov.br. Access in April 2020.

Banco Central do Brasil. Sistema Gerenciador de Series Temporais. Available at: www.bcb.gov.br. Access in December 2019.

Becker J. et al. 2010. Peripheral Financialization and Vulnerability to Crisis: A Regulationist Perspective. *Competition and Change*, Vol. 14 No. 3–4, December 2010, 225–47.

Banco Central do Brasil. Relatório de Mercado Focus. Available at: https://www.bcb.gov.br/publicacoes/focus. Access in May 2020.

Bonizzi, B. 2014. Financialization in Developing and Emerging Countries. A Survey. *International Journal of Political Economy*, vol. 42, no. 4, Winter 2013–14, pp. 83–107.

Bonizzi, B., Kaltenbrunner A. & Powell, J. 2020. Subordinate Financialization in Emerging Capitalist Economies. *The Routledge International Handbook of*

Financialization, edited by Mader, P., Mertens, D. & Van der Swan. New York: Routledge, pp.177-87.

Braga, J. C. S. 1985. *A temporalidade da riqueza*. Tese (Doutorado em Economia) - Instituto de Economia da Universidade Estadual de Campinas, Campinas.

Bresser-Pereira, L.C. 2016. Modelos de Estado Desenvolvimentista. FGV- São Paulo School of Economics, Working Paper 412, Feb. 2016.

Bresser Pereira, L.C., De Paula, L.F.& Bruno, M. 2019. Financeirização, coalizão de interesses e taxa de juros no Brasil. Instituto de Economia-UFRJ, Texto para Discussão no. 22/2019.

Bruno, M., Diawara, H., Araújo, E., Reis, A. C., & Rubens, M. 2011. Finance-Led Growth Regime no Brasil: estatuto teórico, evidências empíricas e consequências macroeconômicas. *Brazilian Journal of Political Economy*, *31*(5), 730-50.

Da Costa, F. N. 2010. Evolução do mercado de capitais durante o governo Lula, Available at: https://fernandonogueiracosta.wordpress.com/2010/12/20/evolucao-do-mercado-de-capitais-durante-o-governo-lula/ Access in July 2020.

De Freitas, M. C. and Prates, D. M. 2001. A abertura financeira no governo FHC: impactos e consequências. *Economia e Sociedade*, Campinas, (17): 81-111, dez. 2001.

Demir, F. 2007. The Rise of Rentier Capitalism and the Financialization of Real Sectors in Developing Countries. *Review of Radical Political Economics*, Volume 39, No. 3, Summer 2007, 351-59.

Dos Santos, P.L. 2013. A cause for policy concern: the expansion of household credit in middle-income economies. *International Review of Applied Economics*, 2013. Vol. 27, No. 3, 316–38.

Duran, C. 2017. *Fictitious Capital. How Finance is Appropriating our Future*. London-New York:Verso.

Erber, F. 2011. As convenções de desenvolvimento no Brasil: um ensaio de economia política. *Revista de Economia Política*, 31(1):31-55.

Erturk, I. 2020. Shareholder Primacy and Corporate Financialization. *The Routledge International Handbook of Financialization*. *The Routledge International Handbook of Financialization*, edited by Mader, P., Mertens, D. & Van der Swan, N. New York: Routledge, pp.43-54.

Filgueiras, M.L. 2020. A dupla que aproxima a favela da Bolsa. *Valor Econômico*, 02/05/2020.

Gentil, D. 2020. Dominância financeira e o desmonte do sistema público de previdência social no Brasil. Castro e Pochmann (org.). *Brasil, Estado Social contra a Barbárie*. São Paulo: Fundação Perseu Abramo, pp. 419-43.

Giavazzi, F. and Pagano, M. 1990. Can severe fiscal contraction be expansionary? Tales of two small European countries. NBER Macroeconomics Manual, Volume 5, pp. 75 – 122.

Insights 2020. Volume financeiro negociado na Bolsa B3 no ano de 2020 até junho é equivalente a 84,6% do ano de 2019. Estudos Economática. Available at: http://insight.economatica.com/volume-financeiro-negociado-na-bolsa-b3/ . Access in June 2020.

Karwowski E. & Stockhammer E. 2017. Financialisation in emerging economies: a systematic overview and comparison with Anglo-Saxon economies. *Economic and Political Studies*, vol 5, 2017, pp. 60-86.

Lapavitsas, C. 2009. "Financialization Embroils Developing Countries". Discussion Paper no. 14, Research on Money and Finance, SOAS. August 2009.

Lara-Rezende A. 2017. *Juros, Moeda e Ortodoxia*. São Paulo: Portfolio-Pinguim.

Lavinas, L. 2018. The Collateralization of Social Policy under Financialized Capitalism. *Development & Change*, 49(2): 502–17.

Lavinas, L. 2017. *The Takeover of Social Policy by Financialization*. New York: Palgrave Macmillan.

Lavinas, L., Araújo, E. & Bruno M. 2019. Brazil: From Eliticized to Mass-Based Financialization. *Revue de la Régulation*, 25, 1st. semester, spring 2019. https://journals.openedition.org/regulation/14491.

Lavinas, L. and Gentil, D. 2020. Social Policy since Rousseff. Misrepresentation and Marginalization. *Latin American Perspectives*, Issue 231, Vol.47, no. 2, March 2020, pp.101-16.

Lavinas, L. and Gentil D. 2018. Brasil Anos 2000: a política social sob regência da financeirização. *Novos Estudos*, vol. 37 -2, pp.191-211, Mai-Ago 2018. São Paulo: CEBRAP.

Neri, M. 2012. *A Nova Classe Média*. Rio de Janeiro: FGV - Editora Saraiva.

Osakabe, M. et al. 2020. Bom humor global mantém Ibovespa em recuperação. *Valor Econômico*, 09/06/2020.

Paincera, J.P. "Developing Countries in the Era of Financialisation: From Deficit

Accumulation to Reserve Accumulation". Discussion Paper no. 4, Research on Money and Finance, SOAS. February 2009.

Soria e Silva S. 2011. "Intersecção de Classe: fundos de pensão e sindicalismo no Brasil". Tese (Doutorado em Sociologia) no Instituto de Filosofia e Ciências Humanas da Unicamp, Campinas.

Appendix

Table A1 - Description of variables used in estimations

Variables	Description	Source
af_pl	Financial assets/Net equity	B3 S.A./Economatica
re_fin	Companies' financial revenue	B3 S.A./Economatica
div_cp	Short-term debt	B3 S.A./Economatica
gdp	GDP – Market prices - var. real trim. - (%)	Instituto Brasileiro de Geografia e Estatística, Sistema de Contas Nacionais Trimestrais (IBGE/SCN Trimestral) - SCN104_PIBPMG104 -
selic	Interest rate - Selic – set by Copom - (% a.a.)	Banco Central do Brasil, Boletim, Seção mercado financeiro e de capitais (Bacen/Boletim/M. Finan.) - BM366_TJOVER366 - -
credit	Seasonally adjusted credit – corporate	Banco Central do Brasil – Sistema Gerenciador de Séries Temporais – v2.1
ibovespa	Bovespa Index - close	B3 S.A. - GM366_IBVSP366