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Brazil: from Eliticized- to Mass-Based Financialization.

Brésil : de la financiarisation par les élites à la financiarisation de masse

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Résumés

English Français
While research on financialization, considered the latest stage of the development of capitalism, initially focused on industrialized countries, it has now expanded to include emerging markets. This article provides new insights into the current Brazilian case, while arguing also that Brazil was already grappling with a premature, eliticized process of financialization in the 1980s, however embryonic. From the 2000s on, there came a new wave of financialization. This time, however, it was mass-based, using social policy as collateral. The article first establishes a timeline for and taxonomy of how financialization has been deployed in Brazil. It then examines how policies aimed at promoting social inclusion have been diverted to that end. Finally, it presents regression analyses demonstrating a negative correlation between financialization and the provision of public goods and services, which has become increasingly privatized. It also finds a positive relationship between financialization and income and cash transfers, the latter serving as collateral for the former.

Alors que la recherche sur la financiarisation, considérée comme le stade le plus récent de développement du capitalisme, portait, à ses débuts, sur les pays industrialisés, elle se tourne désormais vers les marchés émergents. Cet article présente une approche nouvelle sur le cas du Brésil, tout en soulignant que, depuis le début des années 1980, le pays connaissait déjà une vague précoce et embryonnaire de financiarisation, alors restreinte aux élites. A partir de l´an 2000, cette vague prend un essor nouveau. Elle repose cette fois sur un processus de masse, qui se sert de la politique sociale comme caution. Dans un premier temps, l´article établit une périodicité et une taxonomie de ce phénomène au Brésil. Ensuite, il décrit la façon dont les politiques sociales sont détournées de leur objectif d´inclusion sociale au profit de la financiarisation. Enfin, par le biais de l’analyse de regressions, l´article démontre la corrélation negative qui existe entre la financiarisation et l´offre de biens et services publics essentiels, offre de plus en plus privatisée. Il démontre également une relation positive entre financiarisation et transfers sociaux, ces-derniers servant comme garantie à l´expansion du capitalisme financiarisé.

Entrées d'index

Mots-clés : financiarisation, Brésil, politique sociale transformée en actifs de garantie, biens publics
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Texte intégral

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Introduction

1 Since the mid-2000s, analyses of the nature, characteristics, and scope of financialization as a new stage in the development of capitalism (Sawyer, 2016, p. 47) have taken on greater depth and centrality in the realm of heterodox thought, be it post-Keynesian (Epstein, 2014; Stockhammer, 2007), Marxist (Lapavitsas, 2011; Fine, 2013) or regulationist (Boyer, 2000, 2004), continuing a debate that goes back to the 1990s (Aglietta, 1994; Sweezy, 1994). Indeed, this period showed the first signs that the stagnation or decline of productive activity in major Western economies was reappearing and seemed rooted in a new stage of the accelerated expansion of the financial sector, now on a global scale and no longer subordinated to production (Sweezy, 1994).

2 A profusion of studies on financialization from the broadest variety of disciplinary fields (Martin, 2002; Krippner, 2012; Appadurai, 2016) have exposed the radical nature of the sea change which seems to have completely redefined the contemporary dynamics of the capitalist economy and its accumulation regime, affecting even social reproduction (Himmelweit, 2017; Fraser, 2016; Fine, 2016) and the realm of poverty (Lavinas, 2013; Schwittay, 2014; Mandel, 2015).

3 As is often stressed, financialization is not defined by any one concept. Rather, it comprises an array of empirical features and processes. Financialization was initially understood as a systemic transformation of mature capitalist economies (Lapavitsas, 2011), inherent to neoliberal logic (Duménil & Levy, 2005), with the United States and the United Kingdom (Fine, 2014*)* as paradigmatic examples of finance-led capitalism. However, as Stockhammer (2007) is quick to emphasize, although the finance-led drive may stem from the Anglo-Saxon world, in recent years the dominance of finance has completely reconfigured the macroeconomic environment, coming to influence and guide public policies at other latitudes.

4 For Chesnais (2016), financialization is the widespread dissemination of interest-bearing capital throughout the economic system as a whole. He makes a distinction between finance capital and financial capital. The former designating the process of centralization and concentration of capital, through mergers and acquisitions, which strengthened globalization, whereas the latter refers to the extraordinary growth of assets (bonds, stocks and derivatives) over the last decades, held by financial institutions and the financial departments of major corporations (Paulani, 2018).

5 The peculiarities of the forced march towards financialization, also present on the margins (Becker *et al.*, 2010) of the capitalist system, eventually extended analyses' empirical gaze to middle-income and emerging countries. They were not immune to the wave of deregulation and financial liberalization that has swept across borders since the 1990s.

6 It is true that Brazil, ever unique, had an early warning from Braga (1985) about its economy's tendency to financialize, as companies and banks prioritized the

accumulation of financial assets apart from any commitment to future investments in the productive sector.

7 Nevertheless, the growing breadth of financial assets in the construction of private equity soon reached the upper middle class, disseminating a shareholder-oriented logic, particularly in terms of growing affiliation to funded schemes for retirement and pension funds. The exponential growth in the value of financial assets in the late 90s mobilized heterodox thinkers (Coutinho & Belluzzo, 1998), although they continued to understand the phenomenon at a more global level, in terms of the deleterious impacts of crises of liquidity on peripheral economies.

8 More recently, the contributions of Bruno (2011) and Bruno *et al.* (2011) have lent greater depth to the process of precocious financialization in Brazil's economy. By confirming that the former exacerbates capital owners' preference for liquidity, keeping capital from remaining in the productive sector, they conclude that financialization stands as a structural impediment to economic growth, as expressed in the modest rise in Brazil's GDP from 2004-2010. What's more, it also accentuates the functional reconcentration of income.

9 Feijó *et al.* (2016) provide additional empirical evidence on the role of financialization in reducing the rate of growth of the economy, likewise emphasizing the dependence on external savings and, above all, the steep downturn in the industrial sector. This creates a perverse dynamic of deindustrialization, seen to occur even in the absence of any capital flight.

10 Lavinas (2017a) has recently mapped out for the first time how financialization trends have subverted the role of social policy in Brazil, through easing access to consumer credit, student loans, healthcare premiums and fully-funded schemes as complementary social insurance.

11 As if this outsize influence weren't enough, financialization has expanded to the point at which we may speak of financial citizenship.[1] The result of the democratization[2] of finance is expressed in both an increase in financial flows and the growing convergence between finance and life cycle (Van der Zwan, 2014, p. 111). In advanced economies, the brutal rise in household debt came to compensate for stagnating wages, thanks to orthodoxy-imposed fiscal austerity, which even saw the wage bill shrink. In many emerging countries, meanwhile, such as Brazil (Lavinas, 2017b) and Chile (González, 2015), the growing debt-service ratio came amidst a rise in salaries and average income. The spreading phenomenon of deep household indebtedness thus does not reflect a single trend, that of financial compensation for falling salaries, as the alternative way to keep up deteriorating consumption patterns, but is rather a substantive change in the relationship between households and a variety of financial circuits. As stated by dos Santos (2013), the explosion of household credit does not merely fuel the expansion of aggregate demand, but also, and above all, a new form of the provision of services such as housing, healthcare, and education – now via the market and financial circuits.

12 As financialization is a context-specific process (Fine, 2009; Rodrigues *et al.*, 2016) – hence its varied forms and velocities – especially among emerging economies, this article examines little-studied elements of the process in Brazil, especially its recent phase of economic recovery (2004-2014).

13 The second section revisits the pattern of financialization that prevailed prematurely in Brazil and which, as it developed, came to subject Brazil's economy to the rentier logic of a policy of high interest rates and accumulation in assets tied to public and private debt (that of families and non-financial companies). Here, we establish a periodization and taxonomy for the process.

14 In its third section, this article addresses a frequent lacuna in explanations of the role played by social policies (Fine, 2014) in times of financialization. Generally, only the tip of the iceberg – that is, the privatization of welfare and healthcare systems – is connected to the swelling power of big finance, thanks to the expansion of ties with capital markets and the insurance industry (Palley, 2013). Little attention has been paid to the role played by consumer credit and other forms of financing and loans[3] in access to what ought to be the public provision of goods and services indispensable to the well-being of the population. Here, debt emerges as one of the mechanisms feeding the process of mass financialization (Becker *et al.*, 2010), redefining the complementarity

between social policy and economic policy in this new accumulation regime. In both cases the role of the state is altered; it becomes responsible for promoting financial markets and the commodification of life, in keeping with the neoliberal logic of everything for the market (more deregulation, flexibility, and privatization).

15 With the aim of supplementing the dynamic of the process under analysis with empirical evidence, the fourth section provides econometric exercises, whose results confirm that, amidst the profound financialization of the Brazilian economy, social policy is called into action, twisted from its original function, and set to boosting commodified provision.

16 The last section sets out a few final considerations, casting Brazil as an illustration of the effects of a premature process of financialization on a still-developing, extremely heterogeneous economy, with a welfare system that remains incomplete and imperfect, and which will certainly be deprived of any residual redistributive efficacy by the brutal labor and social security reforms underway.

1. The premature financialization of the Brazilian economy: periodization and taxonomy

17 One of the hypotheses of this article is that the phenomenon of financialization in Brazil emerged in the 1970s and was active in the 1980s, even before the concept was coined. As the "economic miracle" (1967-1973) entered into crisis, institutional mechanisms for monetary adjustment spread quickly through the banking and finance sector, giving rise to so-called "index-based or financial currency" in the late 1970s.

18 The fiscal and external-debt crises of the 1980s paved the way for a financial expansion and unprecedented banking concentration, sparked by inertial inflation. With the backing of a State burdened by debt in foreign currency and unable to rein in devaluation, the banking and financial sector during this period developed off the inflationary gains derived from the public debt in overnight operations.

19 Many characteristics of the processes of financialization later documented in international literature were already present in the Brazilian economy: a) the banking and financial sector's rise to hegemonic status, shifting the center of industrial accumulation to short- and extremely short-term liquid financial assets; b) loss of State autonomy in the formulation of economic policy; c) steep rise in the personal and functional concentration of income and wealth, increasing social inequalities; d) a precipitous drop in the productive investment rate and trend towards product stagnation; e) the affirmation of rentier behaviors in non-financial firms and high-income households.

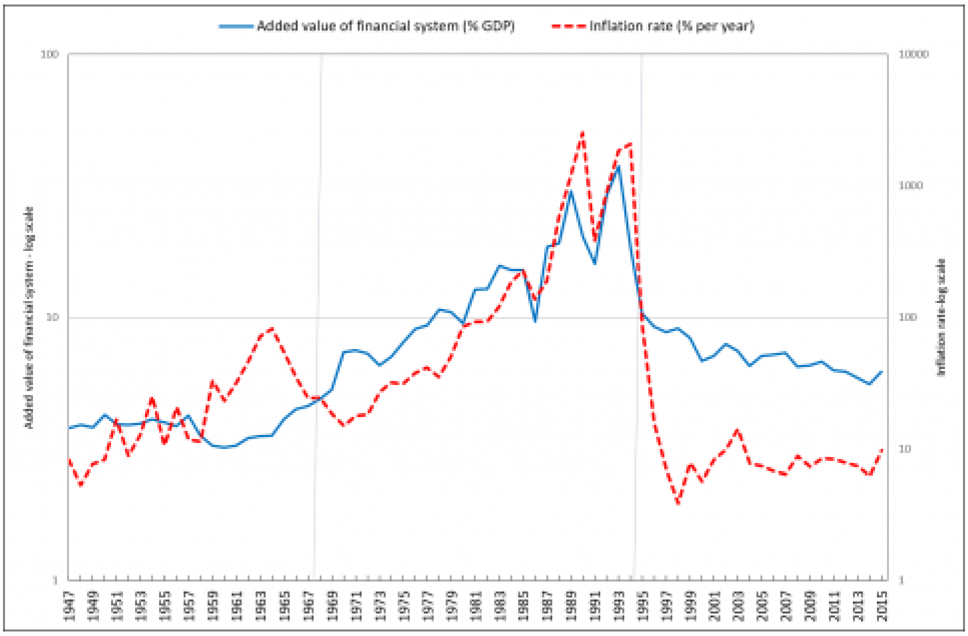
20 The transition from investments to financial products was visible to an unprecedented degree in comparison to other emerging countries. The banking and financial sector, consolidating itself as a hegemonic sector, guided the institutional transformations that led to the commercial and financial liberalization of the 1990s. Brazil's international insertion would take on a new form, one more to the liking of high finance and clearly unfavorable to industrial accumulation.

21 This was the trajectory dubbed "eliticized financialization" (Becker *et al.*, 2010), which benefited the high bourgeoisie and upper middle classes. The phenomenon became patent in the 1980s, when the vast majority of the population had only minimum assets, low income, and restricted access to the banking and financial system.

22 The change in Brazil's international insertion, coupled with the stabilization of prices under the Plano Real post-1994, saw the emergence of a new pattern of financialization in which inflationary gains are substituted by high interest income. Initially focused on assets connected to internal public debt, changes in the monetary regime over the 1990s and 2000s set the macroeconomic ground for the interests of high finance to increasingly overtake public services and social security.

23 Graph 1 shows the evolution of value added by the Brazilian financial market and the inflation rate from 1947 to 2015. The period is long enough to show observable changes in the monetary regime[4].

Graph 1. Long-Term Inflation and Financial Expansion (1947-2015)



Source. Own elaboration. IBGE, National Acounts, several years

Three patterns are visible in relation to these two variables. From 1947 to 1969, inflation rates were still low, and Brazil's financial system was not developed enough to allow banks and the financial market to grow off of inflationary revenue. There were no institutional foundations for monetary adjustment practices to spread[5].

24 In the 1990s and 2000s, those conditions would arise, and financial expansion no longer expressed itself in the rising portion of the Brazilian GDP accounted for by the banking and financial sector. Now, rentier-financial accumulation overspilled the limits of the sector, headed for nonfinancial enterprises and high-income households. Financialization via interest-bearing capital swelled, taking the place of financialization via inflationary gains.

25 Charts 1 and 2 present the correlations between the added value of the banking-financial sector and inflation over each of three periods. They express the macroeconomic and institutional specificities of their respective monetary regimes.

26 From 1947-1968, while negative (-0.22), the correlation is not statistically significant. This, however, does not determine the absence of any structural relationship between the variables. In this case, rising inflation would work to reduce financial value added as a proportion of GDP, as Brazil's economy still lacked developed and integrated banking and financial structures.

27 The period 1969-94 saw the appearance of the institutional and organization conditions for banking and financial accumulation via inflationary gains. Through mechanisms for the generalized indexing of prices and salaries, financial value added expands greatly as a percentage of GDP. The correlation coefficient reflects this macroeconomic regularity, having become positive and statistically significant (0.91). Graph 1 shows that from the mid-1980s to 1994, there is a reversal of the curves plotted to point to the dynamics of inflation rates and the added value growth rate of the financial sector. As noted by Paulani, in her comments to this paper, this suggests that at some point inflation became incompatible with the accumulation process in the financial sector, for extreme high levels of inflation, over 1,000% per year, ended up compromising the logic of interest-bearing capital. It was then necessary to back the Real Plan of monetary stabilization, to reduce volatility and facilitate fixing real interest rates (and not only nominal).

Chart 1. Monetary Regimes in Brazil: typology and main characteristics (1947-2015)

	1970-1980	1981-1994	1995-2015
	-	**Financialization via Public Debt: "elticized" financialization**	**Financialization of Social Policies: "mass-based" financialization**
Level of financialization	1.016	2.04	7.66
Taxonomy	Absent	Restricted	Expanded and High
Origins	-	-Inflation gains from indexation of contracts based on public debt	- Interest-bearing capital and other financial income with assets derived from internal public and private debt (non-financial companies and families) - Finance subverting the public provisions of welfare
Macro & Social Implications	- Institutional context favorable to indexation (adjustment to high inflation) - ↑ Income and wealth concentration - ↓ Wage-share	- Development of rentier accumulation based on "financial currency" and "indexation" - High inflation with stagnation of productive investment - Low rates of wage share, compared to international averages	- Attempt to conciliate financial accumulation and social policies - Stabilization of inflation (1995) and recovery of productive investment (2004) - Moderate increase of wage-share - Collateralization of social policy - Expansion of consumer credit and financial services related to "social" sectors (private pensions, insurance and new financial services)

Source. Own elaboration

28 The 1995-2015 period saw new institutional and macroeconomic conditions, but the strong correlation between inflation (however low) and financial added value remains, with a slightly lower but highly significant coefficient (0.82). This reflects the permanence of State-sanctioned indexing mechanisms in Brazil's economy. However, the fundamental hallmark of this period is the substitution of inflationary gains for high income from interest and other forms of financial gains, derived from internal public debt and the growing indebtedness of households and non-financial businesses. Under this new monetary regime, the institutional conditions for mass financialization are consolidated.

29 This taxonomy of monetary regimes springs from the existence of various modes of the financialization of the economy, and lays bare their historical origins. To this end, two macroeconomic indicators were proposed in Bruno and Caffé (2015): a) the financialization rate and b) the financialization index. The financialization rate is defined as the ratio between the total stock of non-monetary financial assets and the total stock of fixed productive capital. The financialization index is the financialization rate divided by the rate of accumulation of productive capital (ratio between investment and its corresponding stock of capital). These are two ways of representing the same phenomenon, brought on by the process of financialization in Brazil: the substitution of directly productive applications of capital by short-term financial applications. Hence the shift from productive savings to unproductive savings (Aglietta, 2000).

30 Accelerated financial expansion and a low, stagnant rate of productive accumulation stood as hallmarks of the 1990s and 2000s, as seen in Graph 2, which compares the dynamic of the growth of fixed productive capital and the stock of non-monetary financial assets to the Selic interest rate. The Selic Rate is the prime interest rate or the lending prime rate set by the Brazilian Central Bank in order to control inflation. But when banks lend, they apply interest rates that tend to be much higher than the prime rate. Clearly, we see a strong correlation between peaks in the Selic rate[6] and the growth in nonmonetary financial assets, one which gains steam after 2005 (r = 0,9305, p-value = 0,0000).

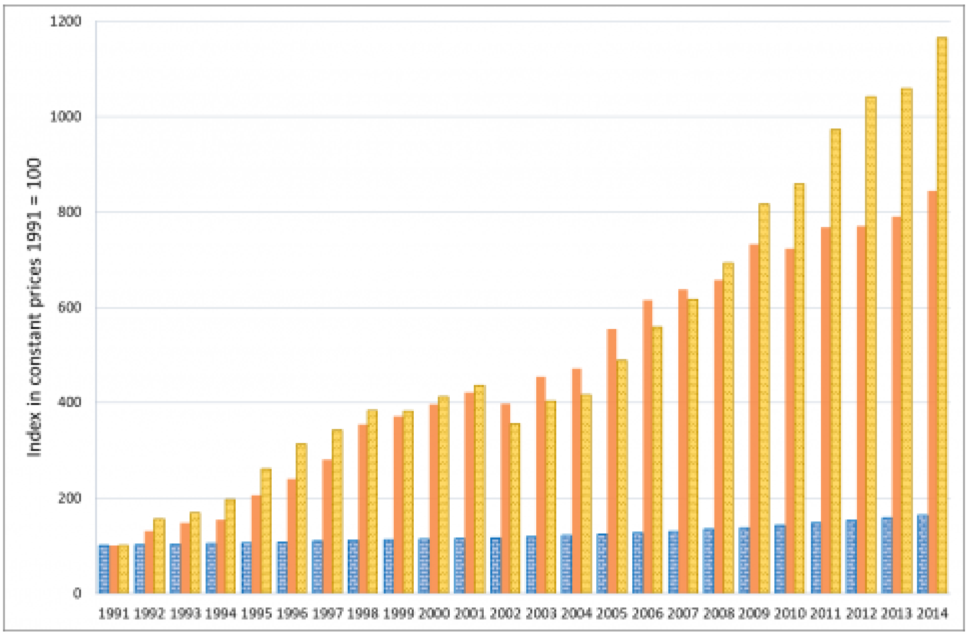
31 The behavior of the three variables laid out in Graph 2 is typical of the patterns observed in other developed or developing countries whose economies are subordinated to processes of financialization.

32 In the period 1991-2014, while the total stock of financial nonmonetary assets grew over 11 times in real terms, following the rise in base interest rates represented by the Selic rate (and reflecting the capturing of the Brazilian state in the process), the stock of fixed productive capital grew just 1.6 times.

33 Chart 2 reveals that in the first period, 1970-1980, the phenomenon of financialization is absent, although the ground is being laid for it through the gradual generalization of the institutional mechanisms for the indexation of prices and salaries,

the basis of inertial inflation. The value 1.016 means that for every monetary unit applied to directly productive activities, one has one unit allocated in financial assets.

Graph 2. Financial Accumulation, Productive Accumulation and Real Capitalized Selic Interest Rate (1991-2014)



Source. Own elaboration, Brazilian Central Bank

Chart 2. Financialization in Brazil: Periodization and Characteristics (1970-2015)

	1970-1980	1981-1994	1995-2015
	-	**Financialization via Public Debt: "eliticized" financialization**	**Financialization of Social Policies: "mass-based" financialization**
Level of financialization	1.016	2.04	7.66
Taxonomy	Absent	Restricted	Expanded and High
Origins	-	-Inflation gains from indexation of contracts based on public debt	- Interest-bearing capital and other financial income with assets derived from internal public and private debt (non-financial companies and families) - Finance subverting the public provisions of welfare
Macro & Social Implications	- Institutional context favorable to indexation (adjustment to high inflation) - ↑ Income and wealth concentration - ↓ Wage-share	- Development of rentier accumulation based on "financial currency" and "indexation" - High inflation with stagnation of productive investment - Low rates of wage share, compared to international averages	- Attempt to conciliate financial accumulation and social policies - Stabilization of inflation (1995) and recovery of productive investment (2004) - Moderate increase of wage-share - Collateralization of social policy - Expansion of consumer credit and financial services related to "social" sectors (private pensions, insurance and new financial services)

Source. Own elaboration

34 From 1970-1980, the phenomenon of financialization is absent, although developing through the gradual spread of institutional means of indexing prices and salaries, the basis of inertial inflation.

35 But from 1981-1994, these mechanisms give rise to economic regularities that are already present and sanctioned by the State as part of the structures that reproduce the Brazilian economy, despite their macroeconomic contradictions. The value moves up to 2.04, reflecting that for each monetary unit immobilized in fixed productive capital, two more are placed in financial and rentier activities. Financial savings and investments start to replace productive savings and investment, hampering economic growth. This result is compatible with the stagflation that marked the period.

36 During the third period, 1995-2015, the disconnecting between applications in financial assets and applications in productive activities reaches a paroxysm. In the third period, 1995-2015, which coincides with the emergence and consolidation of the current accumulation regime, the disconnection between financial activities and productive activities is stark. For each R$1 immobilized in fixed productive capital, we

find R$ 7.66 applied in the financial market, promoting patrimonial rentier accumulation at the expenses of Brazil's socioeconomic development.

2. The recommodification of social spending by high finance

37 With the development of banking accumulation and the strengthening of rentier elites at a new level, made possible by the consolidation and real-time connections between global financial markets, financial capital has sought systematically to conquer new territories. They include the services traditionally provided by national States, such as healthcare, education, and welfare systems. These services are considered market niches, which can expand only if public, universal options are removed or minimized so as to discourage societal demand for governmental provision. In the case of Brazil's public education and healthcare systems, the erosion of the public option through underfinancing (Bahia, 2013; Lavinas, 2017b) became visible over the 1980s, at the start of financialization via inflationary gains, feeding off of the State's fiscal crisis. Despite the rise in public spending in recent years,[7] the trend has not been bucked, but rather deepened (Lavinas, 2017b).

38 Despite the social contract enshrined in the 1988 Constitution, the first neoliberal wave of the 1990s came to reshape the role of social policy, introducing controls, conditionalities, residual programs in place of universal policies, and a preference for monetary transfers over decommodified provision, the latter swept away by the financial logic of insurance policies**.** One might note that 68.8%[8] of the federal government's social spending in 2015 came in the form of cash, with a nearly identical rate of 70.1% seen in 2002 (Tesouro Nacional, 2016). In other words, the structural element of spending remained, despite a bias that effectively stifles the public provision of services, pushing the population to the private sector while allowing the financial sector to capture social policy.

39 However, there is an important alteration in the distribution of federal social spending in monetary form: with the creation of the Bolsa Família Program in 2004 and the real adjustment of the minimum wage, which underpins other assistance-based benefits such as the Noncontributory Regular Pension, or BPC, the importance of non-contributory transfers increased significantly, from 3.7% to 8.8% of the total between 2002 and 2015, even as the proportion of spending on welfare benefits fell from 62.3% to 53.2%.[9] The increase signals an expressive rise in the monetization of society's most vulnerable groups – ones subject to profound income deficits, now covered by the right to a minimum of subsistence and hence able to join the market quickly and en masse (Lavinas, 2013). None of this, however, would alter the structural heterogeneity that still characterizes the job market in Brazil.

3.1 The financialization of healthcare and higher education

40 In parallel, however, a hefty part of the social protection budget was consistently put to other ends, worsening underfinancing in sectors like healthcare and education which were meant to provide equal opportunities for citizens and break with a notion of income-linked access to services. The healthcare system, where the advance of private medicine has been stunning, is an illustrative case.

41 While direct federal spending in the sector has practically flatlined from 2005-2015, varying from 1.47% of GDP to 1.64% (Tesouro Nacional, 2016),[10] the Social Security budget saw major tax breaks which led to an estimated loss of R$637 billion[11] in revenue over the period, mainly to the detriment of the Unified Health System (SUS). Likewise, in the same span of time, healthcare-related tax exemptions came to R$199.1

billion (Tesouro Nacional, 2016), 40% of which came from individual income tax deductions on medical expenses.

42 Ocké-Reis and Gama have developed a precise diagnosis of the total volume of the exemptions hampering the proper functioning of the SUS. Having run down the range of health-expense deductions for households and companies, the authors observed "that tax breaks for healthcare **(**tax credits**)** as a proportion of spending on public healthcare services and initiatives by the Ministry of Health remained virtually stable from 2003 to 2013" (2016, p. 22), around 30%. In other words, nearly 1/3 of the potential budget for federal healthcare initiatives was taken away for 10 years straight, with the beneficiaries being users of the private plans generally taken out by the most affluent households in the country.

43 Meanwhile, the market value of healthcare companies and private insurers came to R$40.4 billion in 2015, as opposed to R$12.2 billion in 2002 – having tripled in just 13 years (Lavinas, 2017b) even as their numbers shrank in a flurry of mergers and acquisitions. The number of households on private plans rose from 35.4 million to 50.3 million over the same period; the lower rate of adhesion gives a sense for the profitability of the complementary healthcare sector in Brazil.

44 The same was seen in education as a whole and higher education in particular, where private provision advanced at leaps and bounds. Indeed, the recent phase of renewed economic growth saw a major shift of students ages 5-17 from public to private primary and secondary schools across all deciles of distribution (Lavinas, 2017a), even as public spending on education went up and the price of private services rose 8.5% p.a. on average, over the 1.9% p.a. increase in salaries over the period. In higher education, however, this contradictory transition, which speaks so eloquently to the erosion provoked by financial dominance, takes on a stunning scope and systematic air.

45 The Workers' Party oversaw the creation of 14 public universities across the country, as well as a vigorous expansion of the Student Financing Fund (FIES)[12] and other mechanisms for access to higher education.[13] The strategy of expanding the availability of slots in universities had ambiguous results at best: the already-high percentage of college students in private institutions went from 70% in 2003 to 75% in 2015 (INEP, 2016). Most surprising, however, was that spending on FIES in 2015 reached just over R$15 billion, as opposed to R$1.3 billion in 2003, and came to represent 46% of all federal spending on public federal universities that year (Tesouro Nacional, 2016).[14] The geometric progression of student loans over such a short period of time drove the formation of large educational conglomerates, such as the Kroton/Anhanguera Group, Estácio Participações S.A., Ser Educacional S.A., and Anima, to mention just the major players. Moreover, it allowed them to consolidate their positions in the market by way of aggressive acquisitions and mergers, having gone public starting in 2007**.** Table 1 (*infra* and in appendix) shows the steep rise in enrollment, as well as the percentage of students with full FIES scholarships – which rose from around 10% in 2010 to over 40% in 2014, across all institutions.

Table 1. Brazil, FIES Students (2010 to 2015)

	Thousands of students enrolled (4th quarter)				Percentage of students with FIES scholarships			
Year/Quarter	Estácio Participações	Kroton Educacional	Ser Educacional	Anima	Estácio Participações	Kroton Educacional	Ser Educacional	Anima
2010.4	n.a.	8	1	3	-	11%	4%	10%
2011.4	15	20	3	6	8%	21%	9%	21%
2012.4	41	59	16	12	20%	45%	33%	35%
2013.4	76	87	31	20	32%	56%	45%	46%
2014.4	123	259	48	34	42%	61%	48%	48%
2015.4	136	238	56	29	41%	54%	45%	40%

n.a. = not available. Figures drawn from fourth quarter

Source. Quarterly reports from Estácio Participações S.A., Kroton S.A., Ser Educacional S.A. and GAEC Anima S.A

46 As if it weren't enough for the government to fully finance over 40% of those enrolled at these private institutions, taking on a default risk of 47% (as of 2014, when half of all students failed to make a single payment), it also contributed directly to the spectacular rise in these companies' stock prices, an upward curve that tracked along with the boost in public financing. As the number of students with FIES funding at these second-tier private universities soared, so did the companies' market value. As a result, now-multinational corporations like Kroton (the world's largest) saw their net worth multiplied countless times in just a few years. For its part, Kroton went from R$40.6 million in 2004 to R$12.6 billion in 2014 (Lavinas, 2017b, p. 152)[15].

3.2 Bankarization and financial inclusion via consumer credit

47 In Brazil's case, mass financialization (Becker *et al.*, 2010) took on a singular bent, supported by new mechanisms of access to the financial system, bankarization, and especially the expansion of consigned consumer credit. This came amidst an extension of the process of market incorporation, by way of an increase in both contributory and noncontributory cash transfers.

48 Bankarization advanced as the State encouraged the opening of individual accounts for the beneficiaries of social programs like Bolsa Família. These new users were immediately presented with a vast array of small, low-cost insurance policies of questionable effectiveness. Similarly, they came to have access to retail credit at nominal market interest rates. In Brazil, 87% of adults now have some form of bank account (*Valor Econômico* 15/03/2017).

49 And yet the wave of financial inclusion was not limited to new accounts and expanding insurance markets (health, funeral, etc.), which began growing again after decades of stagnation. While financial policy was unable to make bank credit contribute significantly to development from 1990 through the mid-2000s (Hermann, 2010), the connection would materialize in 2003. The balance of credit in relation to GDP would double, going from 22% in 2001 to nearly 55% in 2015 (Banco Central, 2016), against a more favorable macroeconomic backdrop.

50 The recovery, however, doesn't explain everything. The fastest-growing type of credit was precisely consumer credit (Borça Jr. & Guimarães, 2015; Lavinas, 2017b), spurred by the 2003 creation of consigned credit,[16] which prioritized civil servants, retirees, and pensioners, categories that represent over 90% of users of this sort of loan (Banco Central, 2015). While common amongst workers in the formal sector, consigned credit came to be used by the financial sector to capture a clientele which had the State as the guarantor of its income. That is to say, payments made by the State become collateral that practically eliminates moral hazard for banks and ensures a tidy profit: while nominal interest rates for consumer credit were at an average of 140% p.a. in December of 2015 (ANEFAC, 2016), consigned credit charged 30.7% p.a. (Banco Central, 2016), with zero risk.

51 The consequences are familiar. While a 2002 World Bank survey of Brazil reported that only 10% of Brazilians over age 18 had taken out a loan in the previous twelve months, in 2015 the Banco Central came up with a figure of 34% (*Valor Econômico* 15/03/2017). The vast majority of borrowers were still low-income households (Lavinas, 2017b). By way of illustration, in 2014 alone, 61% of new loans taken out in the Brazilian financial sector were by individuals with a monthly household income below 3 minimum wages. The figure comes from the Banco Central, which also indicates that the household debt-service ratio for borrowers in this income bracket came to 73% (2014), as opposed to an average of 64%. No matter the metric, these rates are surprisingly high.

52 The rate of indebtedness of Brazilian households[17] on consumer credit alone,[18] a clear signpost of the ongoing financialization process, now stands at 28.7% of GDP (Banco Central, 2015). American households are almost identically indebted, at 30% of the U.S. GDP. In the eyes of the Federal Reserve, that percentage is quite elevated.

53 What's more, the rate of indebtedness has only risen despite the profound recession afflicting the Brazilian economy since 2015. In 2016, 56.2% of all Brazilian households reported debts to the financial sector, with a quarter in default. In June of 2017, a national survey[19] found that 59.4 million Brazilian adults are in default vis-à-vis the financial sector.

54 Consumer credit serves to finance needs not met by public policies, not merely to allow for the acquisition of durable goods and wage-goods, which, moreover, ought to be made accessible through adjusted and adequate salaries and a more just tax structure.

55 Financialization will yet break new ground in the process of the recommodification of social policy, reconfiguring its forms, reach, and meaning, with consequences for the reproduction of inequalities and social vulnerabilities, and in terms of the reshaping of social protection systems increasingly deprived of their public function, which have yet to be studied in depth. Social security is penalized, stripped of exclusive resources to an extent that damages the quality and coverage of public provision. This, in turn, reinforces segregated patterns which are highly stratified by income. Cash transfers, meanwhile, are not immune to the process of financialization, as they are pressed into service as collateral, to ballast the consumer credit boom and facilitate the financial sector's capture of income that ought to serve to improve the living conditions of those who remain on the margins of society –nominally included, but effectively discriminated against. Its swift advance over the most vulnerable segments of the population suggests a purpose beyond solving market flaws and ensuring socioeconomic stability; its function has been redefined by the accumulation regime of financialized capitalism.

56 Is it possible to establish a clear relationship between financialization and changes in the provision of public goods and services? If so, of what nature? And based on which of the trends identified in previous sections?

4. Financialization and changes in the provision of goods and services:

empirical evidence

57 This part of the article seeks to investigate the relationship between financialization and changes in the provision of public goods and services, as well as the importance of the existence of collateral (the minimum wage and cash benefits – pensions/Bolsa Família, BPC) for mass financialization to gain steam.

58 The first hypothesis to be tested in this section is that the increase in financialization helps to reduce the offer of decommodified public services (healthcare and education), while stimulating complementary social insurance. At the same time, since the reduction or undermining of the public option, be it targeted or universal, creates market niches for companies operating in those sectors, it expands social demand for private production and supply. Note that the looting of the public option in education and healthcare, in Brazil, preceded the growth of private production and supply.

59 The hypothesis is tested by using monthly temporal series, from March 2004 to December 2014, a total of 130 sets. The chosen period begins in 2004 because some of the key variables used are only available for this range. The variables used in the model are described below.[20]

logselic = Cumulative SELIC rate as a proxy for the financialization of the economy.

logsocprovi = Social spending on in-kind provision, the sum of federal education and healthcare spending. Source: SIGABRASIL.

logcompl_insur = Net worth of complementary social insurance funds. Complementary social insurance – closed – value of entities' assets – total. Source EFPC Dataprev.

60 The Selic Rate is the official interest rate established by the Central Bank of Brazil. It is set at extremely high levels compared to the international average. The main financial revaluation asset on which the Selic interest rate is applied is Internal Public Debt. To express this process of financial accumulation in this paper, we applied compound interest.

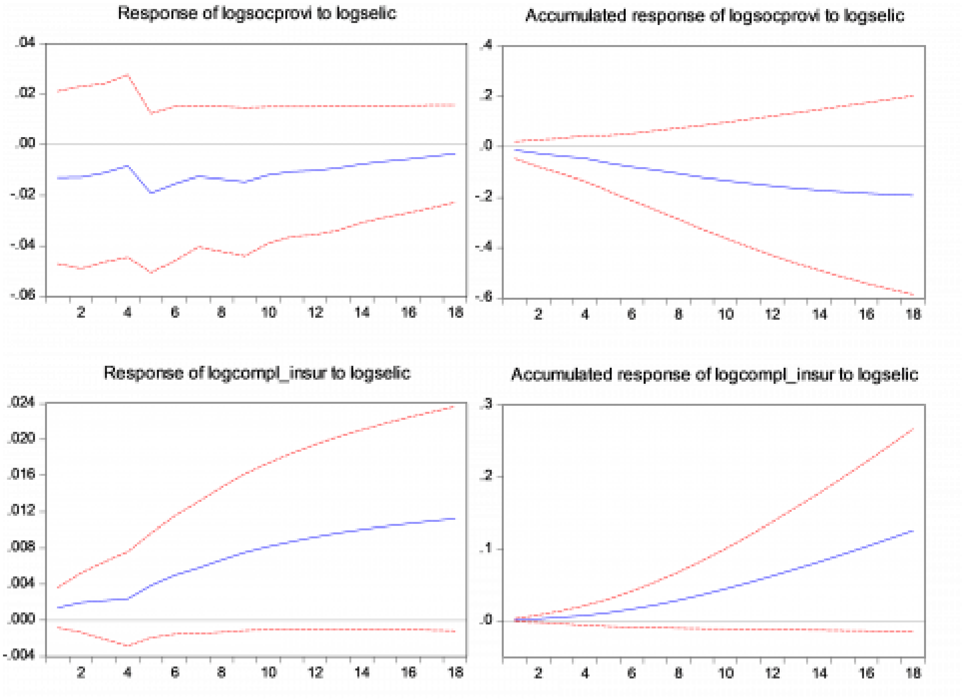
61 For the purpose of our analysis, which is the identification of how social expenditure and supplementary pension variables react to a shock in the financialization variable, we chose to use the vector autoregressive models (VAR). This choice is based on the fact that empirical analyzes generally require a priori classification of variables as "endogenous" or "exogenous" in each estimated equation, which is often arbitrary and subject to much criticism. For this reason, it is common in macroeconomics to use an alternative approach, where all variables are treated as endogenous, minimizing the need to impose possibly false constraints on the model. In this line, VAR models have proved to be dynamic enough to understand how shocks in a model variable influence the other variables included.[21]

62 It is important to underscore that capitalized interest income – that is, the cumulative Selic prime rate – is a fundamental component of patrimonial rentier accumulation in Brazil, as it guarantees high liquidity and profitability for those holding financial assets. This takes in not only interest flows on the public debt, but also capitalized interest on almost every existing credit instrument offered to Brazilian households.

63 The results of this VAR model are illustrated in Figure 1, which sums up the effects of a shock (non-cumulative and cumulative) on the variable that serves as a proxy for the financialization of the economy and the response of in-kind social spending and complementary social insurance. As financialization rises, the reaction from decommodified social spending is clearly negative; complementary social insurance (private fully-funded schemes) responds positively to the shock, as would be expected.

64 In sum, Figure 1 illustrates the impact of a positive shock on the variable used as proxy for financialization over a period of 18 months. On the left-hand side of the upper quadrant, one identifies a decline in decommodified social spending during the first wave of the shock. The cumulative effects are displayed in the upper-left quadrant. But at the same time, as highlighted by the lower quadrants, soaring levels of financialization bring about an increase in fully-funded pension schemes in both periods (the first period shown in the lower left quadrant, whereas the second period appears in the lower right one).

Figure 1. Response of in-kind social spending and complementary social insurance to a positive shock on the proxy variable for financialization



Note. Model estimated with 4 lags

65 The second hypothesis to be tested, as laid out in above sections, is the need to establish collaterals that would allow for the materialization of mass financialization, as well as facilitating the latter's rapid expansion. In our evaluation, the real rise in the minimum wage played a key role in this process and elsewhere. Welfare benefits' extended coverage, low monetary value notwithstanding, greatly boosted the degree of State-backed monetization. Similarly, the advance of retirement benefits can be supposed to have had equal relevance, using social policy to amplify the offer of State-guaranteed collateral.

To investigate this, we estimated a model that relates the following variables from June 2000 to December 2014:

Retirement and Pension Benefits (ret_pen_benefit). Source: Siga Brasil.

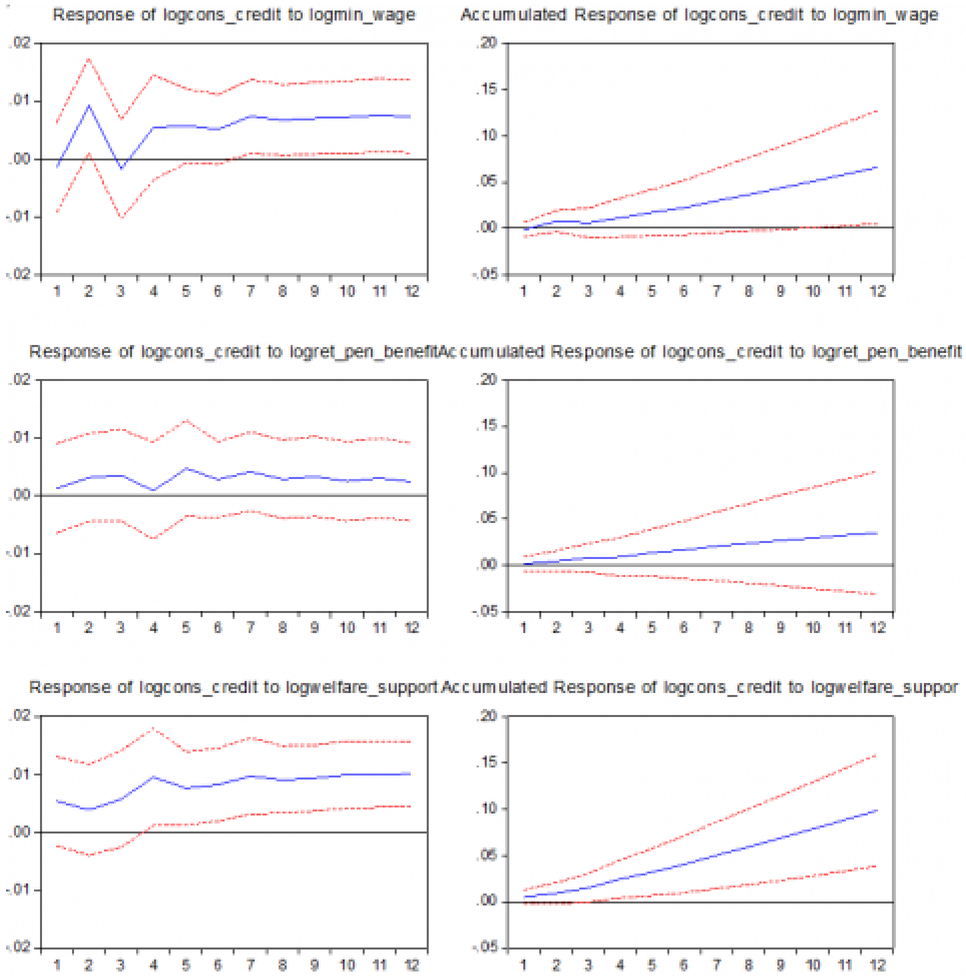
Elderly and Disabled Welfare Support (welfare_support). Source: Siga Brasil.

Minimum Wage (min_wage). Source: Ipeadata.

Consumer Credit (cons_credit). Source: BCB.

66 Figure 2 illustrates the response of credit to shocks to the minimum wage, elderly and disabled welfare support, and retirement and pension benefits. In it, such shocks lead to significant elevations in the consumer credit variable. In other words, it is indeed possible to link the growth of the minimum wage and retirement and pension benefits to the rise in the collateral necessary to ballast a hefty expansion in credit.

Figure 2. Response of credit to a shock (cumulative and non-cumulative) to the variables minimum wage, elderly and disabled welfare support, and retirement and pension benefits



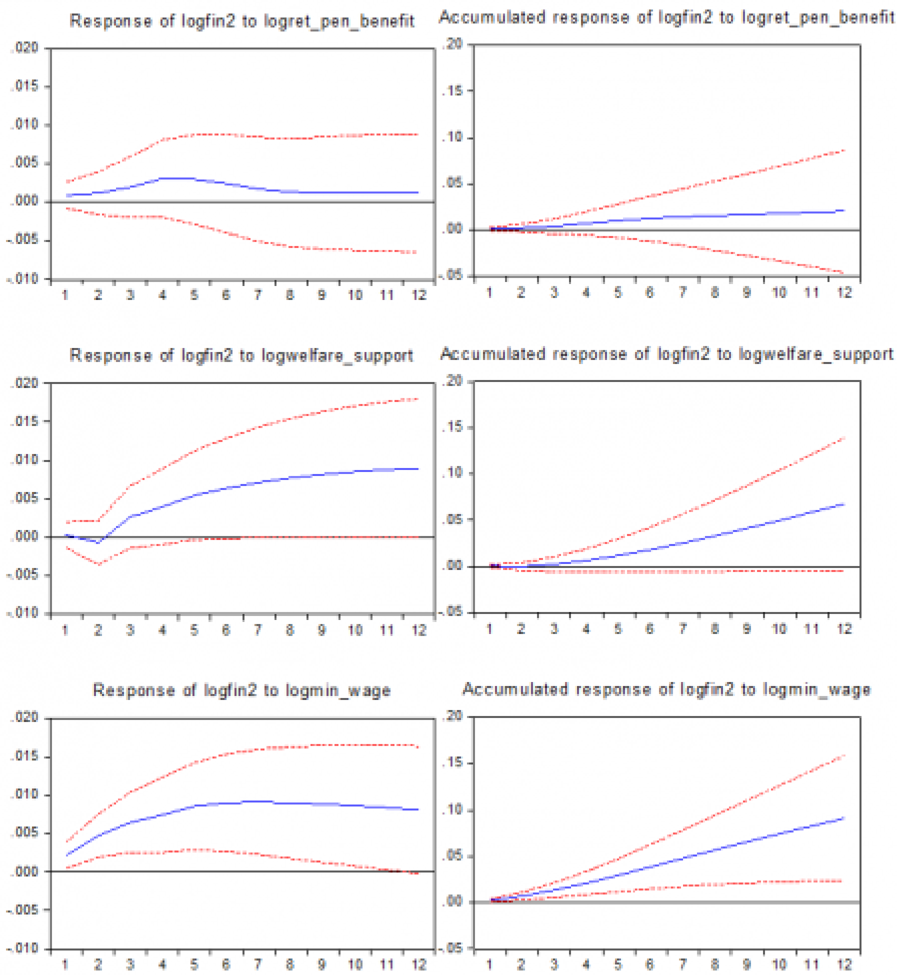
Note. Model estimated with 3 lags

67 In the attempt to offer further information on the mass financialization of the Brazilian economy, the variables from the prior model that represent "collateral" will be related to a financialization variable in place of a credit variable. The proxy used for financialization (FIN) represents the cumulative flow of annual income of the difference between monetary aggregates M4 and M1,[22] at constant December 2015 prices. As it is based on the stock of non-monetary financial assets held by households and companies, it would appear to be a significant proxy for the financialization of the Brazilian economy. While the first variable used as a financialization proxy (SELIC rate) was more closely associated with public debt securities, the second hews closer to mass financialization.

68 The M4 monetary aggregate includes all fixed-income and net financial assets owned by the private sector and the public sector. The capitalization of high interest income that characterizes the financialization process of the Brazilian economy has led to the exponential growth of this stock since 1990.

69 To illustrate the results of the association of the variable that represent collateral and the financialization proxy, Figure 3 presents the mass financialization proxy's response to the variables for the minimum wage, elderly and disabled welfare support, and retirement and pension benefits.

Figure 3. Response of financialization to a shock (cumulative and non-cumulative) to the minimum wage, elderly and disabled welfare support, and retirement and pension benefit variables



Note. Model estimated with 3 lags

70 Figure 3 shows that, indeed, continuous income flows must be ensured to feed the growth of the financial system; monetization is indispensable to the mass financialization process. This is because the elevation in the variables that function as collateral in credit systems (wages, retirement and pension benefits, and welfare_support) is followed by an elevation in the proxy variable for mass financialization used here, making it possible to say that these variables permitted the materialization of the phenomenon as well as facilitating its rapid expansion. The collateralization of social policy will play a crucial role in forging this new link to the financial sector, establishing a bridge to countless, growing forms of financial inclusion. And the Brazilian state is left as the guarantor for this unique mechanism feeding mass financialization.

Final considerations

71 The process of the financialization of the Brazilian economy is not only premature but also unique in several institutional aspects. As this article has shown, Brazil displays several of the characteristics documented in international literature on this structural phenomenon, as mentioned in the introduction here.

72 The origins of financialization in Brazil date back to the 1980s, a period marked by high inertial inflation and trends toward product and income stagnation. As the practice of indexing prices and salaries spread, financial and rentier elites were strengthened and banking concentration grew, even as the State and its still-incipient welfare structures were undermined. The analyses developed here provide empirical evidence of the existence of a form of restricted, eliticized financialization in this decade. Given the extreme concentration of the stock of real and financial wealth, this patrimonial rentier appreciation remained limited to the highest income brackets and

large national and foreign firms. This sort of financialization had in inflationary gains and rising public debt its main axis of financial accumulation.

73 Currently, thanks to the financial and commercial liberalization in the wake of post-1994 price stability, the channels for the appropriation of the economic surplus by Brazilian high finance are connected to the practices observed amongst their international peers, placing patrimonial accumulation on a new level entirely. We have arrived at a process of mass financialization (Becker *et al.*, 2010) in which the banking and financial system, incentivized by the State, extends the reach of financialization to low-income sectors of society via bankarization and access to a growing array of personalized financial services. The collateralization of social policy seems to finally be crossing the barriers (erected by structural heterogeneity) to the definitive market incorporation of once-excluded sectors of society. Tens of millions of Brazilians were thus integrated into the domestic mass consumer market, in a spectacular wave of financial inclusion which saw the broadening of the bases of financial accumulation. However, the Workers' Party administrations' focus on integration into the consumer market ought to have been complemented by a national development strategy, including both an effective progressive tax reform and a reform of the financial sector that would adjust it to the aims of Brazilian development. The goal would be to bar an increase in the concentration of wealth, particularly the sort accumulated in financial assets held by the most fortunate.

74 In the institutional and political crisis of 2015-16, high finance's grip on the structures of State financing seems to have reached a paroxysm. Economic and social policy began to move in lockstep towards a single goal: to expand, at any cost, all potential spaces for further financial and rentier accumulation. Hence the urgency of the ongoing neoliberal reforms that have put Brazil's young democracy in jeopardy.

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Document annexe

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- Table 1. Brazil, FIES Students (2010 to 2015) (application/pdf – 220k)

Notes

1 In the words of Fine & Saad-Filho (2016), the subordination of families to the financial markets and their processes has been abusively dubbed "financial citizenship" (p. 13).

2 Here, we adopt the definition of Erturk *et al.* (2007), for whom the democratization of finance means that all families today would be able to possess money and/or manage risk, once they have acquired the financial services and products that meet their needs.

3 We should recall that financing is credit tied to a predetermined, specified good, while loans are credit that does not specify collateral or the use of the funds loaned from creditor to debtor. Both expand in financialized economies.

4 A monetary regime is the macroeconomic outcome of the coalescence of organizational, institutional, private and public structures underpinning monetary and financial circulation, and providing specific regularities in line with the predominant economic activity and the relationship between the State, the economy and the process of capital accumulation. The existence of different monetary regimes indicates that the liquidity level of any asset is not exclusively dependent on its microeconomic characteristics, but rather on its organizational and institutional features that codify every monetary regime, given the set of norms and legislation established by the national State.

5 The monetary regime in place from 1980-1993 may be featured as dual to the extent that the private banking sector itself issued a parallel currency alongside the currency issued by the Brazilian state. It turns out that this "special currency" gave rise to the generation and appropriation of the so called inflationary gains by the banks, as explained in the text. This financial currency was backed by the public debt short-term bonds. The returns were constantly updated by the mechanism of monetary indexation (adjusted by the national consumer price index).

6 As pointed out by one of the reviewers, the exchange rate is one axis of the stabilization policy of neoliberalism. In the Brazilian case, however, the tendency to the real appreciation of the exchange rate is a consequence of the persistence of extreme high interest rates in the Brazilian economy. High real interest rates are the main factor in attracting speculative capitals, which

promote the accumulation of international reserves (unlike China or South Korea, Brazil isn't a role model of export-led growth). Because the financialization process occurs in a context of high real interest rates, the appreciation of the exchange rate compromises Brazil's external industrial competitivity and ends up provoking a premature deindustrialization.

7 Total social spending at the federal level alone, but considering direct spending and tax exemptions, went from 12.9% of GDP in 2002 to 17.5% in 2015 (Tesouro Nacional, 2016).

8 As a proxy for social spending in the form of cash, we took the expenses registered under social welfare, social assistance, and labor and employment, which cover nearly all the monetary benefits paid out to the population, contributory or noncontributory.

9 Tesouro Nacional 2016, table 2, page 11. Rural pensions (at an amount of 8 million paid on a monthly basis) are a social insurance benefit and not a welfare scheme, therefore it is not assistance-based.

10 Graph 13, page 47.

11 This sum, in real values as of December 2015, covers COFINS, CSLL, and PIS-PASEP waivers for 2005-2015. Waivers on pension contributions were not included, as they go towards social security revenue. Exemptions for both categories came to R$ 912.9 billion over the decade in question.

12 Created in 1999, FIES saw a massive expansion post-2007, under the second term of President Luiz Inácio Lula da Silva.

13 The University for All Program (PROUNI), created in 2004, offers scholarships (full or 50%) for students from low-income families.

14 In 2015, federal spending on higher education came to approximately R$34 billion.

15 If Kroton and Estácio do merge, as reported (*Valor Econômico* 17/03/2017), the market value of the new entity may surpass R$28 billion.

16 This is a loan discounted automatically from the payroll (for **workers, civil servants and employees**) or retirement or survivors' pensions.

17 All households, not only those of borrowers.

18 Excluding mortgages.

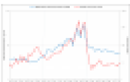
19 Jornal *O Globo*, 22/08/2017, "País tem 59,7 milhões de inadimplentes, mostra pesquisa".

20 Variables were deflated, deseasonalized and logarithmized.

21 For more information on the benefits of using VAR models, see Enders (2014).

22 M4 takes in investment deposits, high-liquidity emissions carried out on the internal market by depository institutions, those which create outstanding credit, internal wholesale borrowing on fixed-income funds and the net position of SELIC-registered securities + high-liquidity public securities. The M1 aggregate (paper money held by the public and cash deposits) was excluded from the M4, providing a variable that corresponds to the total stock of non-monetary financial assets.

Table des illustrations

	**Titre**	Graph 1. Long-Term Inflation and Financial Expansion (1947-2015)
	Crédits	Source. Own elaboration. IBGE, National Acounts, several years
	URL	http://journals.openedition.org/regulation/docannexe/image/14491/img-1.png
	Fichier	image/png, 91k
	**Titre**	Chart 1. Monetary Regimes in Brazil: typology and main characteristics (1947-2015)
	Crédits	Source. Own elaboration
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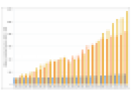	**Titre**	Graph 2. Financial Accumulation, Productive Accumulation and Real Capitalized Selic Interest Rate (1991-2014)
	Crédits	Source. Own elaboration, Brazilian Central Bank
	URL	http://journals.openedition.org/regulation/docannexe/image/14491/img-3.png
	Fichier	image/png, 51k
	**Titre**	Chart 2. Financialization in Brazil: Periodization and Characteristics (1970-2015)

	Crédits	Source. Own elaboration
	URL	http://journals.openedition.org/regulation/docannexe/image/14491/img-4.jpg
	Fichier	image/jpeg, 132k
	**Titre**	Table 1. Brazil, FIES Students (2010 to 2015)
	Légende	n.a. = not available. Figures drawn from fourth quarter
	Crédits	Source. Quarterly reports from Estácio Participações S.A., Kroton S.A., Ser Educacional S.A. and GAEC Anima S.A
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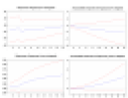
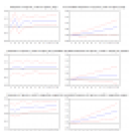
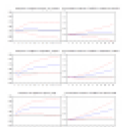
	**Titre**	Figure 1. Response of in-kind social spending and complementary social insurance to a positive shock on the proxy variable for financialization
	Légende	Note. Model estimated with 4 lags
	URL	http://journals.openedition.org/regulation/docannexe/image/14491/img-6.png
	Fichier	image/png, 159k
	**Titre**	Figure 2. Response of credit to a shock (cumulative and non-cumulative) to the variables minimum wage, elderly and disabled welfare support, and retirement and pension benefits
	Légende	Note. Model estimated with 3 lags
	URL	http://journals.openedition.org/regulation/docannexe/image/14491/img-7.png
	Fichier	image/png, 27k
	**Titre**	Figure 3. Response of financialization to a shock (cumulative and non-cumulative) to the minimum wage, elderly and disabled welfare support, and retirement and pension benefit variables
	Légende	Note. Model estimated with 3 lags
	URL	http://journals.openedition.org/regulation/docannexe/image/14491/img-8.png
	Fichier	image/png, 24k

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Articles du même auteur

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Paru dans *Revue de la régulation*, 11 | 1er semestre / Spring 2012

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