Financialization and income distribution in Brazil in the 2000's

Flavia Carvalho de Moraes e Silva

Abstract: The process of financialization in the world economy has begun in the 1980s, with the financial sector growing in power and establishing itself as the main player in developed economies. This process changed institutions, social organization and the economies' dynamic, this being materialized by the behavior of many economic variables. In developed countries, we observe a long-term decline in the wage-share and an increase in income inequality. In Brazil, we can state that financialization has begun in the 1990s. However, it is not possible to observe a long-term pattern of decline in the wage-share, nor an increase in income inequality. Instead, since 2004, the wage share has grown consistently and inequality has decreased, thus contradicting two of most well-established stylized facts in studies of financialization. This paper investigates the relationship between financialization and income distribution in Brazil during the 2000s. We have analyzed four channels in which financialization may affects the wage-share: (i) the exit options for capital; (ii) the financial payments of non-financial businesses; (iii) the competition in capital markets; and (iv) household debt. Our conclusions point that the process of financialization in Brazil did not evolve the same way it did in developed economies. It can be deemed as 'incomplete', as two of the four channels indicated above – (i) and (iv) – are obstructed. We should, also, point out that this 'unusual' behavior is due to the role played by the Brazilian government and its minimum wage policy; and by the Unions and its strikes that are successful in achieving real wage increases.

JEL: Financialization; income distribution; Brazil

Introduction

During the 1980s began in the world, led by the United States (USA), a social and economic change, where the financial system had the political majority and economic power. This transition started with the implementation of neoliberals policies, specially de deregulation of the labor and financial markets; and the decrease of economic policies introduced by the government.

The process described above was denominated financialization and will be defined here as *"(...) increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operations of the economy and its governing institutions, both at the national and international levels."* (Epstein 2001, pp. 3) This process, also, have impact on economic variables, as aggregated demand, investment, consumption and income distribution. In developed economies, we observe a long-term decline in the wage-share and an increase in income inequality. Therefore, they analysis the relation between financialization and income inequality.

In Brazil, the financialization process started in the 1990s, specifically in 1995 with the neoliberals reforms. We highlight the deregulation of the financial market, commercial opening, privatizations and the security social reform. The reforms had as main propose bring a new growth path to Brazil and have made country get in a regime of accumulation dominated by the financial market.

However, it is not possible to observe a long-term pattern of decline in the wage-share, or an increase in income inequality. Instead, since 2004, the wage share has grown consistently and inequality has decreased, thus contradicting two of most well-established stylized facts in studies of financialization. Then this paper investigates the relationship between financialization and income distribution in Brazil in the 2000s. Mainly, what make possible Brazil present this two tendency over the last decade.

The analysis was based on Köhler *et.al.* (2015). They consolidate the channels that financialization is capable to affect the wage-share in fourteen OECD countries. It is not possible to replicate the econometric exercise in a robust way because we do not have enough data for Brazil. Therefore, we analyzed the four channels through which financialization is capable to affect the wage-share: (i) the increased exit options for capital; (ii) the increased financial payments of non-financial businesses; (iii) the increased competition in capital markets; and (iv) the increased of household debt. We study the same data utilized by Köhler *et.al.* (2015) for Brazilian economy trying to compare it with their data and establish if the channels of financialization acts as they described.

This paper have three sections, beyond this introduction and the conclusion. The first one presents the process of financialization occur in Brazil in the 1990s and 2000s, pointing out the Brazilian peculiarities in this process. In the second is done a literature revision about the relation between financialiation and income distribution on the developed economies. Finally, the last one analyze the channels whereby financialization is capable to affect the variation of the wage-share for the Brazil economy in the 2000s.

1. Brazilian Financialization Process

Araújo *et.al.* (2012) state that the financialization process have its based formed in 1980s, where the high inflation rates allowed the development of an inflationist monetary-financial regime. This regime, at the same time, protected the agents against the high inflation rate and feedback inflation with an indexed currency. This indexed currency was very important to the financial sector expansion and the bank accumulation in a period with high inflation and economy stagnation.

It was the financial sector accumulation and the bank concentration made in the 1980s that allowed the financial system have political power enough to induce the new economic regime at the 1990s. The new institutional configuration have as main point the financial liberalization. Therefore in 1995 was established in Brazil a social organization that privileged the capitalist and the financial system, both nationally and internationally. In the same year, have a change in the financial accumulation process due to price stabilization. Since 1995, this will be replace by fixed income securities linked to public indebtedness, at extremely high interest rates.

Although the inflation stability have been conquered in the 1990s, the problems with low growth, economic instability and high levels of unemployment persisted. Therefore, the new century and the workers party election in 2002 brought hope that would be developed in Brazil a new path of growth and development. This path would be based in the domestic market expansion to mass consumption goods, called social developmental model.

Lavinas (2016) state that this growth model was structured following the Keynesian paradigm that the aggregate demand induce the investment, and the Kaldorian paradigm that investment would be followed by innovations. Mainly, the proposed growth would accompany income redistribution policies that would induce the growths mass consumption. Family consumption growth was guaranteed by creation of formal jobs, real income growth and credit access. The last one supported by one institutional innovation of link the social policy with financial market access.

One of the most important part of the financial inclusion process occurred with the creation of payroll loans in 2003. This ensures priority access to loans with lower interest rate. Firstly this type of credit was design only to public workers and expanded after to all formal workers. In 2004, the payroll loans was extended to retired and pensioners of public system. Brazilian innovation in this loan is allowed these facilities to pensioners of public system, linking credit to social benefits, ensured by State. (Lavinas, 2015)

Another policy that have as main proposed family financial inclusion was the creation of microcredit also in 2003. BACEN (Brazil Central Bank) data reveal that between 2003 and 2007 90% of this type of credit was reserved to consumption. This will be reduce in 2013, when 80% of microcredit should be reserved to production by law. (Lavinas, 2015)

Also, in 2008 the government made a financial inclusion policy to "*Bolsa Familia*"[1] beneficiaries. First, this project only pretend to open banks accounts. After, came into the program scope provision of financial services, as credit card. Lavinas (2015), states that this program only reach 2 million of 14 million families register in "*Bolsa Familia*" indicating that the prices and conditions stipulated by financial system not included the vulnerable families.

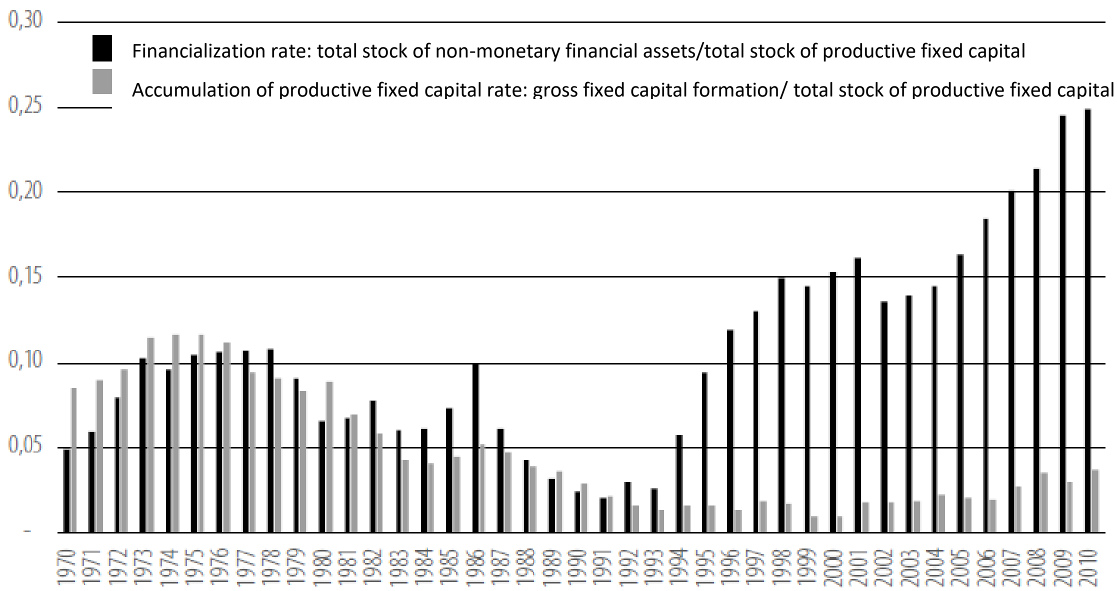
Credit in this period have high rates of growth. BACEN data indicates that the rate credit/GDP was 22% in 2002, and growth to 53,6% in 2016. The household debt correspond to more the 40% of total debt. The credit granting policy made family indebtedness with financial system grow from 18% in 2005 to almost 45% in 2016. This point out the high commitment of income with financial system.

[1] Guarantee benefits to families with per capita income lower than poverty line of R$ 154,00 monthly.

Therefore, the Brazilian financialization process have to two sides. The first one started in 1995 and was designated to high incomes and holders of capital. It is related to the fixed income securities linked to public indebtedness, at extremely high interest rates. The other one, begun in 2003, encouraged by government, it is the broad financial inclusion described above. In this process the State is the policy financier since big portion of the debtors of payrolls loans have their income attached to State, either as salaries or as pensioner of social security.

The evolution of financialization process can be seen through indicators. Bruno (2014) design a financialization rate that clear show that this process goes deeper in the 1990s and 2000s. Graphic 1 shows the evolution of this rate that express the how fast the unproductive saving replaces the productive savings.

Graphic 1. Financialization rate and Rate of accumulation of productive fixed capital



Source: Bruno (2014: 37)

Analyzing the data we can conclude that in the 1970s and 1980s both rates are following the same pattern. In the first decade the accumulation of productive fixed capital rate are bigger than the financialization rate, only in 1980s that reverse, but they are still close. It will be in 1994 that this two rates move away, with the financialization rate growing faster in the 1990s and the 2000s. This pattern indicate that in this period the Brazilian economy suffer a financialization process, with the productive assets been replaced by financial assets.

2. Financialization and income distribution in USA and Europe.

The analysis of relation between financialization and income distribution starts recently, even in the developed economies with ILO (2008), Stockhammer (2009) and Hein (2013). These studies have as focuses developed countries that suffer financiliazation of their economies and observe a reduction of the wage-share.

ILO (2008) have as hypothesis that financialization reduces the wage-share because its impact on the union bargaining power due to the increasing of shareholder value orientation and short-termism of management. Hein (2013) deepening this analysis points out that this new orientation follows an increase on interest and dividends payments. If the firm can set prices of goods following a mark-up rule and have a mark-up sensible to interest and dividend payments, the increase of this payments will increase overhead costs that will cause a reduction on wage-share.

Hein and Dodig (2014) continue pointing out the channels that financialization and the neoliberalism is capable to affect the wage-share. The first one is related with behaviors changes in economy sectors, with a decrease of public sector and non-financial sector, which historically have wage-share bigger, and an increase of financial sector, which presents wage-share lower. This will affect the wage-share of the whole economy.

The second channel is the increase of management salaries that are part of the overhead costs, with increase of rentiers pressure for higher profits, that will follow a growing payments of interest and dividend of corporative sector.

The last one is the impact that financialization and neoliberalism have on de union bargaining power. They affect their power in many ways: increasing of shareholder value and short-term profitability orientation of management, sector change with increase of sector that have weaker unions and decrease of sectors with stronger union, the extinction of full employment policies by government, deregulation of labour market and liberalization and globalization of international trades and finance.

So for they "these developments have not only triggered falling labour income share, but they also should have been conducive to the observed increases in inequality of personal/household incomes". (Hein and Dodig, 2014: 17)

Barba and Piveti (2008) points out another mechanism relating financialization and income distribution, the household debt. They state that the wage decrease made low and middle-income classes' families appeal to credit to maintain their levels of consumption for three reasons. First, new consumptions good and services become essential to live in these decades, as example computer e cellphones. The second one is related to the role of State in the society. They assert that, in this period, have reduction of the progressiveness of the tax system and a replace process from public to private service provision. The last reason for families increase their debts is the desire for higher standard of living and social recognition, beyond the imitation of upper classes. For this analysis the reduction of wage-share is the cause, and the consequence, to the families increase their participation in the financial system seeking out a better income to satisfy their levels of consumption.

Until here, authors discuss theoretically the relation between financialization and income distribution. Have some papers that propose an econometric analysis for this relation. They try to estimate the financialization relevance to income reconcentration through channels discussed previously.

Stockhammer (2009) tested the hypothesis pointed out by ILO (2008) that financialization affects income distribution by the reduction of union bargaining power to OECD countries. He finds that financialization have a strong negative effect over income distribution. Even though the paper suffer some problems of measuring financialization, it have an first result that one of the main reasons of the reduction of the wage-share occurs in the previous three decades was financialization. ILO (2011), also test this hypothesis and found consistent results to the analysis over 16 high income countries. It found a negative relation between the financialization deepened and the wage-share, with statistically significant estimators.

Lin and Tomaskovic-Devey (2013), studying the American industry between 1970 and 2008, test the hypothesis of the restructure that financialization made in the social relations and income dynamics, what induce a reduction on union bargaining power. They found that increasing reliance on financial income in the non-finance sector, on the long run, induce a reduction of wage-share, an increase on the wage of top officers, and raise earnings dispersion among workers. They counterfactual analysis point out that financialization contributes to half of the decrease of wage-share between 1970 and 2008.

Hein and Schoder (2011) take the profit-share to test the kaleckian hypothesis for USA and Germany between 1963 and 2007. They found a positive relation between profit-share and the interest and dividend payments. Dünhaupt (2013) tests the same hypothesis but use the wage-share as dependent variable for 13 OECD countries and covers the period of 1986 to 2007. She uses the net interest and net dividend payments of non-financial firms to study the role of change to shareholder value and find and strong negative relation to payment of dividend but not to interest payment.

Köhler *et.al.* (2015) consolidate four mechanism by which financialization is capable to affect income distribution. They are

> "(1) increased exit options for capital due to financial globalisation; this is based on theories of bargaining power. (2) Increased financial payments for non-financial businesses; this is based on neo-Kaleckian theories that postulate financial cost-sensitive mark-ups. (3) Increased competition on capital markets; this has been put forward by neo-Marxian theories of financialisation and by the critical shareholder value literature. (4) Increased household debt; this is an undertheorised area, where neo-Sraffians and Cultural Political Economy have made contributions." Köher *et.al.* (2015: 2-3)

The first one is related to the growth of application options for capital with financial globalization. It state that have an increase of capitalist bargaining power over the labour, making the last one have relative lost in their income. The second mechanism has respect to the increase on interest and dividends payments of non-financial firms, leaving a mark-up increase in the med-term, making the wages decrease. The third one affirms that the securitization and increase of financial negotiations increase the competition creating pressure on wages. Finally, the last one refers the increase of household debts and state that the decrease on wages leave an increase on household debts making them financial vulnerable.

With this view, Köhler *et.al.* (2015) realize an econometric study to identify what mechanism are acting in the economy. They test their hypothesis making a panel date study for fourteen OECD countries between 1989 and 2011. Their results point out that financialization have impact on income distribution, mainly by increased exit options for capital and household debt.

Therefore, we can affirm that developed economies found a strong relation between the process of financialization and the decrease of wage-share. Either theoretical or empirical studies leave as conclusion that the process of financialization have as consequence an income concentration.

3. Brazilian relation between financialization and income distribution

Although Brazil suffer a financialization process, as we saw, it is not possible to observe a long-term pattern of decline in the wage-share, or an increase in income inequality. Instead, since 2004, the wage share has grown consistently and inequality has decreased, as we can see in graphic 2. This contradict the established stylized fact study previously, that financialization affects income distribution.

Graphic 2. Evolution of wage-share in the 2000s

Source: IBGE - National Account.

From this statement, we analyze in this section how Brazil conciliate a deepening financialization process with reduction on income inequality. We will analyze the evolution of Brazilian data for the four mechanism pointed out above in the 2000s. We compared they with the OECD countries data presented by Köhler *et.al.* (2015).

3.1. The mechanisms of financialization and income distribution

3.1.1. Increased exit options for capital due to financial globalization

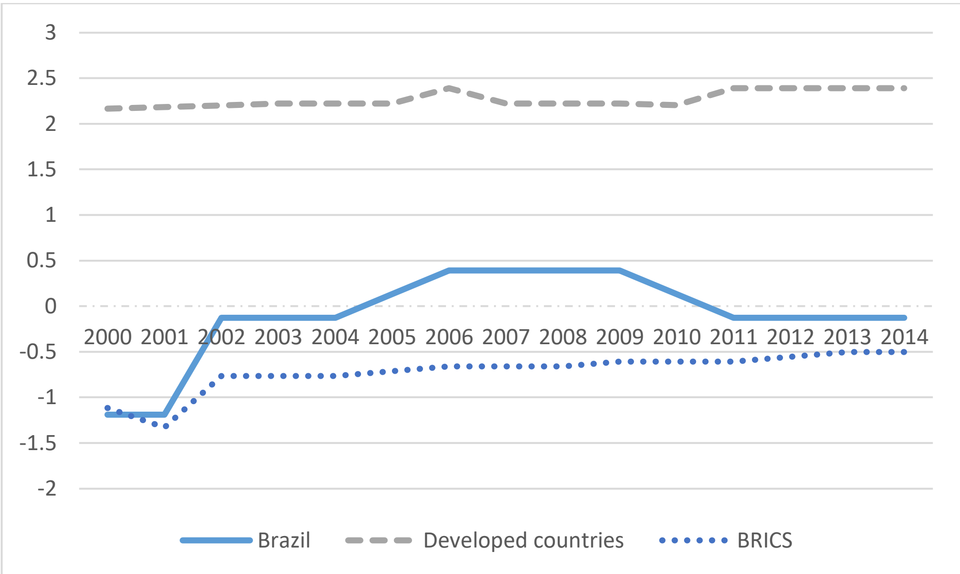
This mechanism is based on the theory that income distribution is a result of the distributive conflict between work force and capitalist. The financialization can affect the bargaining power of agents affecting the result of the conflict.

Financialization, with globalization, will increase the exit options for capital, making productive capital be one of the several other forms to reproduce capital. Beyond that, financialization growth the shareholder value orientation and short-termism of management, demanding an increase on profits and consequently a decrease on wages, losing bargaining power.

As Köhler *et.al.* (2015) we use the openness index developed by Chin and Ito (2006) to compare Brazil with others countries. This index measure the extension of capital controls, that is a proxy to measure the intensity of this capital control.

Graphic 3 show the evolution of the index for Brazil, and the average for the fourteen OECD countries studied by Köhler *et.al.* (2015) and the average for the five BRICS countries. We can see that Brazil have an increase in the index over the decade, what represent a decrease on capital control. In 2009, have a decrease in the index, that can be related to the world crisis.

Graphic 3 – Openness index for Brazil, OECD countries and BRICS countries



Source: Chin and Ito (2006)

Although Brazil presented an increase in the index, it cannot reach the average of developed economies. When we compare with BRICS economies Brazil are higher, but with a small difference. So Brazilian index openness grow in the last decade but are still low when compared to OECD economies, wich have financialization process more intense.

This indicate that this mechanism are not completely developed here, what can reduce the impact that financialization have over income distribution. Mostly, Köhler *et.al.* (2015)

found this was the main channel where financialization affects distribution on OECD countries.

However we have to point out that, even if Brazilian capitalists have less international options for capital when we compare to OECD countries, they still find good national option to their capital. As we have said, financialization in Brazil is very close to the application on fixed income debt of the public debt. By financial and financial equity account reported by IBGE since 2011, we can state that financial application of non-financial firms increase from R$ 4,68 trillion in 2011 to R$5,79 trillion in 2013. What can indicate that even the international options for capital is not available for the firms they still find internal options for the capital.

To study if the mechanism is completely formed we studied if the union lost their bargaining power in the negotiations. For this analysis we use strike statistic and workers unionization rate. The first one reported by inter-union department of statistic and socioeconomic studies (Dieese), and the last one is reported by National survey by sample of domiciles (PNAD).

From table 1 we can state that between 2005 and 2013 have a strong growth in strike number, either on public or private sphere. This can indicate that union not lost their bargaining power. The main claims in this strike are salary readjustments and plans of positions and salaries.

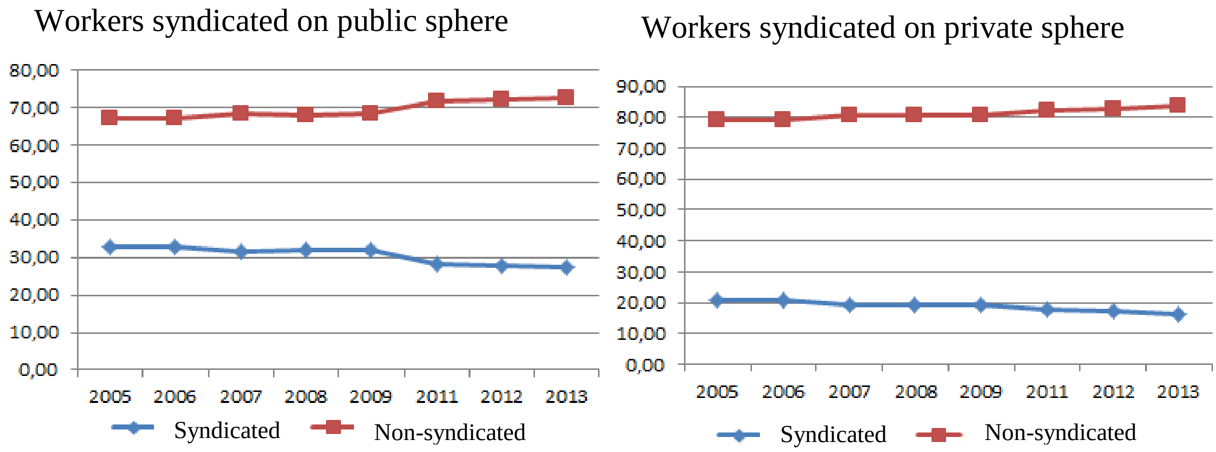
Table 1 – Number of strikes for years and sphere

Year	Public Sphere		Private Sphere	
	frequency	%	frequency	%
2005	162	54,5	135	45,5
2006*	113	58,9	79	41,1
2007	161	51,9	149	48,1
2008	184	45,1	224	54,9
2009	251	48,5	266	51,5
2010	269	60,4	176	39,6
2011	325	58,9	227	41,1
2012	409	47,0	461	53,0
2013	933	45,8	1106	54,2

Source: DIEESE.
*Data consolidate only in the first semester

The evolution of workers unionization rate, presented on graphic 4, shows a decrease, either in public or private sphere. However in 2013 more than 45% of workers are syndicated. This means that even the rate are declining the proportions of syndicated workers is still large in Brazil.

Graphic 4 – Workers Unionization Rate (%)



Source: PNAD

PNAD data points out that the syndicated wages are bigger than non-syndicated. In 2013 the average syndicated mass of wages are bigger in 140% when we compare to the average non-syndicated mass of wages. So, be part of unions is important for wages, what reinforce that union still have bargaining power to determine wages.

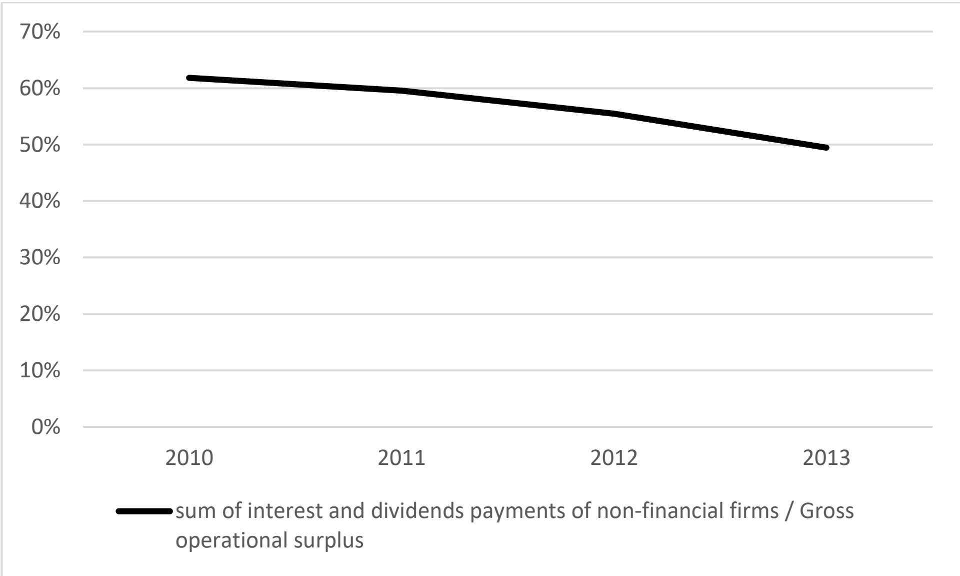
We conclude that even if Brazilian capitalist have good national options for capital that could counterbalance the low openness index when compared to developed economies, the union bargaining power were not affected yet. Because of that this mechanism are not acting in Brazilian economy, and financialization are not affecting income distribution by reduction of bargaining power.

3.1.2. Increased financial payments for non-financial businesses

The second mechanism is associated with the increase of financial payments for non-financial firms. The theory point out that the increase of this type of payment increase fixed costs, growing mark-ups. This will make price increase, real wages decrease and grow profit-share.

Köhler *et.al.* (2015) use as proxy to this mechanism the ratio of sum of dividend payments and interest payments of non-financial firms to their distributed income. Neither have this database for Brazil or any form to measure the distributed income. We use the financial account for non-financial firms reported by IBGE since 2010 to study this mechanism and use the ratio sum of interest and dividend payments of non-financial firms to their gross operating surplus. We claim that as this is not the same variable used by the authors so we cannot compare Brazil with the OECD countries.

Graphic 5 – Financial payments for non-financial businesses



Source: Nacional Account - IBGE

We can see from graphic 5 that the variable have a decline tendency. It start at more than 60% in 2010 and in 2013 reach 49%. However, this is an expressive ratio, meaning that almost 50% of the income that firms have after the pay wages and production taxes is used to pay dividends and interest.

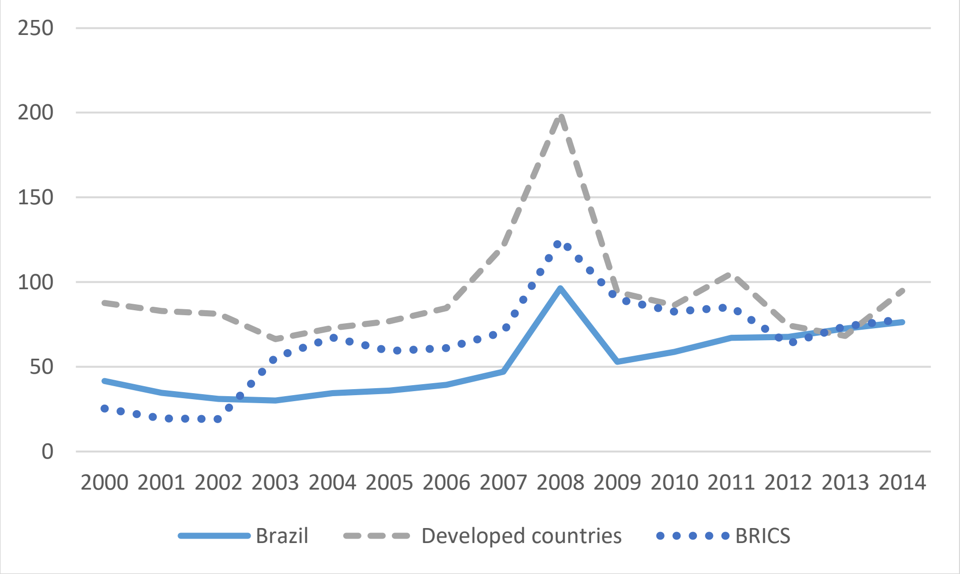
Unfortunately, we just have four years to study what is a small sample to take more conclusions about this mechanism. What we can say is that, the interest and dividend payment seems to have an important part of the gross operational surplus, getting part of the profit taken by the firms, however have a decline tendency since 2010.

3.1.3. Increased competition on capital markets

The third mechanism which financialization affect income distribution act by the increase of competition on capital markets, making the increase of securitization and trades in capital market modify the internal organization of productive firms. This increase in competition will make firms reduce their costs, mainly with wages reduction and more exploration of workers.

Köhler *et.al.* (2015) use as proxy to measure this channel the stock market turnover ratio (STO) reported by World Bank. The ratio are formed by the value of domestic shares traded divided by their market capitalization, and hear are indicating the competitive pressure on firms to raise labour productivity. We can found the same ratio for Brazil and used it to compare to the average of developed countries - OECD countries studied by Köhler *et.al.* (2015) – and the average of BRICS countries. The evolution of this variable is in graphic 6.

Graphic 6 – Stock Market Turnover Ratio (STO) – (%)



Source: World Bank

Brazilian data presented an increase tendency growing from 42% in 2000 to 76% in 2014, considering 2008 outlier derived from the world crisis. Although this is a significant increase, the ratio stay below the average of developed economies and the BRICS since 2002 until 2012. It is important to say that since 2009 either developed economies or BRICS seems to have a decrease tendency in the ratio, and Brazil continue to grow up, reaching the same baseline in 2012, for BRICS and 2013 for OECD economies. This can shows that the increase of competitive pressure over the firms stay in all the period including when other countries are getting decreasing.

That way, Brazilian economies seems to improve this mechanism all over the period. That way the increase competition in capital markets could affect wages and pressure over workers. Once this mechanism developed over the last decade, their effects over workers could not occurred yet, developing in the next years.

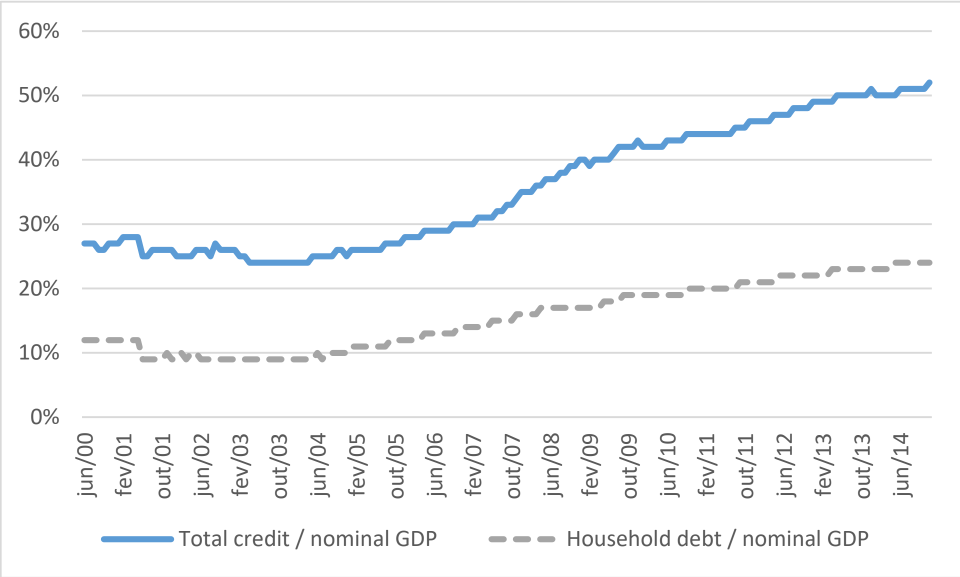
3.1.4. Increased household debt

The last mechanism point out that the reduction of wages make families found in the financial system a way to keep their purchasing power through debt. This theory points out that beyond reduction of wages, the cutback of public goods provision is other causes of the increase of debts. That way the causality hear is inverted, is the increase of income concentration that raise financial vulnerability of families.

As Köler *et.al.* (2015) we use household debt as percentage of nominal GDP, this is taken by the ratio debts given to families to nominal GDP reported by Brazil Central Bank. Besides that, we taken the families indebtedness reported by Brazil Central Bank since 2007.

In graphic 7 we compare the total credit taken in the economy to GDP, to the credit taken by household to GDP. What we can see is that total credit grow all over the period as the household debt. The last one, in the begging of 2000 is 12% of GDP, and in end of 2014 reach 24% of GDP.

Graphic 7 – Household debt to nominal GDP – (%)



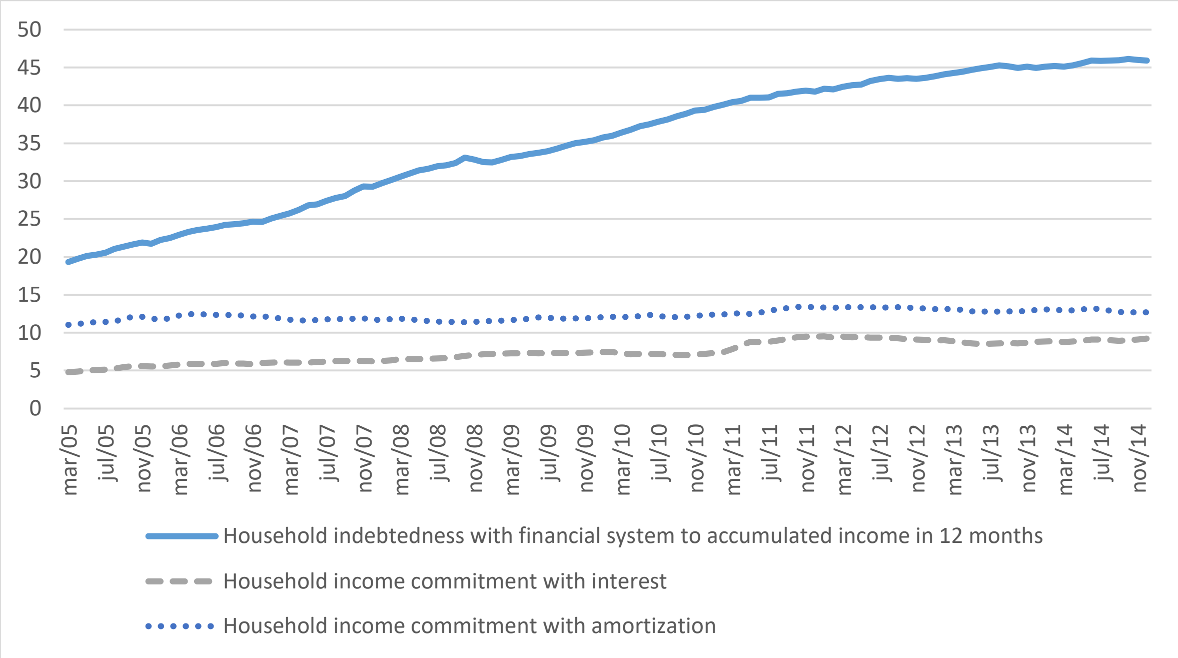
Source: Brazil Central Bank

However, we have to point out two important difference. First one, when we compare to data presented by Köhler *et.al.* (2014) to the OECD countries we observe that in the beginning of the 1990s these countries already have 40% of GDP as household debt, reaching in 2008, more than 70% of GDP. That way, although Brazil have an increase in this ratio in the 2000s, it not reach yet the baseline that the developed economies have in the previous decade.

Besides that, this mechanism points that the financial inclusion of families occurred because of the decrease of the wages. In Brazil the process is the opposite. As described earlier is the increase of the income and public policies that promote the financial inclusion. These families is excluded before due to their low income and the high interest rates. That way, the financial inclusion policy is mandatory for this increase on household debts.

It is important to say that even this inclusion happening because of income increase and public policy they still make families more financial vulnerable. In graphic 8, we can see that families indebtedness with financial system as proportion of the accumulate income in twelve month, which is less 20% in 2005, reach 45% in the end of 2014. This shows that in less than 10 years families more than double their indebtedness. More than that, the income commitment with interest reach 10% of income. Thereby, the increase with interest payment and of families' indebtedness show the vulnerability that this process introduce to families income.

Graphic 8 – Families income commitment to financial system – (%)



Source: Brazil Central Bank

Therefore, we cannot say that the increase in household debt is Brazil works as a mechanism where financialization is affecting income distribution since these increase is due to the growth of families' income and public policies. However, this brings a big problem to families putting they in position of vulnerability and dependency of financial system.

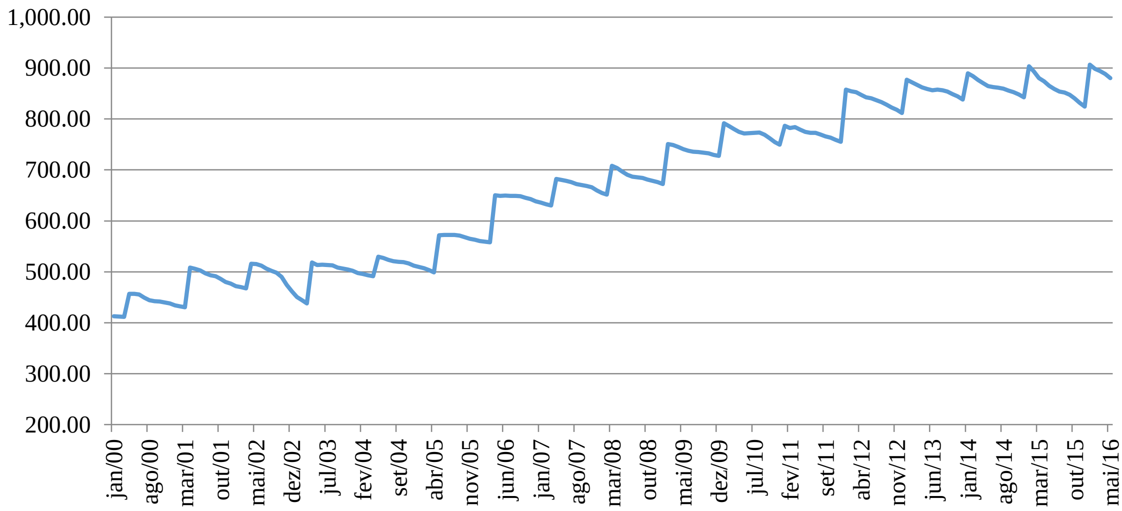
3.2. State role in Brazilian income distribution process

Stockhammer (2008) points out that the financialization process is marked by the growth of debts in the economy. Thereby, financialization needs a constant income flow of families to be possible the financial inclusion. Brazil in the 1980s and 1990s present a big portion of it population with low and instable income, being an obstacle to the financialization process.

Since 2003, State make a big effort to ensure basic income to poor families. The main programs combating poverty was *Beneficio de Prestação Continuada* (BPC) and *Bolsa Familia*. The first one included elderly with more than 65 years and people with disabilities with per capita income lower than ¼ of minimum wage. The second guarantee benefits to families with per capita income low than poverty line of R$ 154,00 monthly. These programs were important to take out of misery and poverty around 45 million Brazilian people that now have a minimum income to survive.

Yet the main way to guarantee an increase on wage-share is the real increase of minimum wage constantly and over the productivity promoted by State, showed in graphic 9. Salama (2012) affirm that State role in labour market is determinant to ensure the increase in wage-share in the 2000s. These growth in the minimum ages impact others sectors as retired people that have their pensions linked with minimum wages. Besides that, State promote too an incentive to employees formalization, increasing formal jobs and ensure worker stability and others benefits as unemployment insurance and retirement.

Graphic 9 – Evolution of real minimum wage (R$)



Source: IPEADATA. Real wages with constant price of abril/2016; deflector: INPC/IBGE

Several studies about income inequality based on household surveys, as PNAD, show a decrease in Gini index, in last years in Brazil. Salama (2015) points out that in between 2003 and 2013, Gini index fell from 0,58 to 0.524. Beyond that, he affirm the misery and poverty decrease in a significant way in this period. People in misery drop from 10% in 2001 to 5,3% in 2013, and poverty population drop from 30% in 2001 to 14,1% in 2013. And Salama affirms that what make possible the inequality reduction is the wage increase, increase in jobs opportunity and decrease of informality, as mention before.

However, as Salama (2011) highlight, a consistently and significant decrease in poverty and in inequality requires an increase in social spending as wealth, education, infrastructure and basic sanitation. Lavinas (2015) points that, in Brazil, 60% of social spending is with monetary transfer and public service provision stay low and below what is established by law.

Therefore, State strategy in the last years was expand access of basic income through poverty combat programs, and expand the access of social security benefits, while leaves the provision of basics good and services to market. This consolidate the social developmentalism model that have as main strategy the mass consumption through financial system access. Lavinas (2015) affirm that the innovation of this model is the connection between credit and social policy to ensure families consumption, as stated before. She presents that between 2001 and 2015, while minimum wage have real growth of 80% and medium wage grow 30%, the household debts grow 140%.

Therefore, the State have an important role in the increase of wage-share, allowing it occurred even the financialization process has deepened. The politics of real increase of minimum wages, with formalization incentive and increase of jobs opportunities have an important impact in the decrease of income inequality. However, this was attached with a financial inclusion policy and increase of market provision of public goods and services, as education and wealth, deepening financialization process.

Conclusion

What we observe is that the financialization and income inequality dynamic take a different form in Brazil. While developed economies present a negative relation with the income inequality increasing due to financialization, in Brazil in the 2000s was possible to join the decrease of income inequality with a deepening of financializatioon process.

Brazilian indicators of mechanisms described by Köhler *et.al.* (2015) shows that we have a deepening in financialization with most of them growing. However, when we compare to OECD countries we see that two of these mechanisms do not have the same behaviour.

Although mechanism of increased exit options for capital present an increase tendency, it is very low comparing to developed economies. This shows that Brazil still have a relative closed economy. More than that, the channel act by decreasing union bargaining power, what as we can see not happened in Brazil.

The second mechanism that present peculiarities is the increase of household debts. As the first one it present an increase tendency, with growth of 140% between 2001 and 2015, but not reach the levels of OECD countries. But what is interesting in this channel is that it present an important difference in how it act in the economy. While in developed economy the household debts increase due to the income decrease, in Brazil it increase due to the increase of income. In this way, we cannot say that it is a mechanism where financialization could affect income distribution. However as we point out, this increase in household debt make families become vulnerable and dependents from financial system.

State plays an important role in both process, financialization and better income distribution. What we see is that social policy that have an important role to reduce income inequality become collateral to ensure access to financial system. Finance appropriates the welfare state sphere with many and sophisticated mechanism, privatizing it services and transforming social policy in a sector aiming profits of private companies, mainly financial ones, and leave their main characteristic of heal inequalities and transform societies to more equalities one. (Lavinas, 2015: 19)

Therefore while State promote a better income distribution with minimum wage growth, growth of formalization jobs and monetary transference, it act too in financialization process, with credit policy, linking it with social benefits and stimulate market to provide public services, as education and wealth.

So what make possible Brazil present a growth in wage-share with a financialization economy was the fact that, although it is present and deepened, financialization do not reach the degree of OECD economies, what are restricting mechanism to act in the economy, mainly not affecting union bargaining power. Besides that, the public policy promoting income distribution by increase of real minimum wages have and important role counterbalancing the effects that financialization could have had.

Bibliography

Araújo, E., Bruno, M. and Pimentel, D. (2012). "Financialization against Industrialization: a regulationnist approach of the Brazilian Paradox", *Revue de la régulation,* 11 | 1er semestre / Spring 2012.

Barba, A. and Pivetti, M. (2009). "Rising household debt: Its causes and macroeconomic implications – a long-period analysis", *Cambridge Journal of Economics*, 33, pp. 113-137

Bruno, M. (2014). "Desafios do desenvolvimento socioeconômco brasileiro: uma perspectiva institucionalista do período recente." In: *O Panorama Socioeconômico do Brasil e suas relações com a Economia Social de Mercado*. Konrad Adenauer Stiftung.

Chinn, M. D. and Ito I. (2006). "What Matters for Financial Development? Capital Controls, Institutions, and Interactions," *Journal of Development Economics*, Volume 81, Issue 1, Pages 163-192 (October).

Dünhaupt, P. (2013). "The effect of financialization on labor's share of income". *Institute for International Political Economy* (IPE), Berlin School of Economics and Law, Working Paper, No. 17.

EPSTEIN, G. (2001). "Financialization, Rentier Interest, and Central Bank Policy".*PERI Conference on "Financialization of the World Economy"*, December 7-8,2001, University of Massachusetts, Amherst.

ILO (2008). "World of work report 2008 : income inequalities in the age of financial globalization", *International Labour Office,* International Institute for Labour Studies. – Geneva: ILO

ILO (2011). "World of work report 2011: Making markets work for jobs", *International Labour Office* – Geneva: ILO

Hein, E. (2013). "Finance-dominated capitalism and re-distribution of income: a Kaleckian perspective", *Cambridge Journal of Economics*, Advance Access, [Online] accessible at: http://cje.oxfordjournals.org/content/early/2013/08/08/cje.bet038.abstract

Hein, E. and Dodig, N. (2014). "Financialisation, distribution, growth and crises –long-run tendencies", *FESSUD (Financialisation, Economy, SocietyandSustainable Development),* Working Paper Series No 23

Hein, E. and Schoder C. (2011). "Interest rates, distribution and capital accumulation – A post-Kaleckian perspective on the US and Germany", *International Review of Applied Economics*, 25(6), pp. 693-723

Lavinas, L. (2015). "A financeirização da política social: o caso brasileiro", *Forth coming at Politika*, n. 2, July 2015, Rio de Janeiro, Fundação João Mangabeira em colaboração com Humboldt-Viadrina Governance Platform, p.35-51

_____ (2016). "How Social-Developmentalism Reframed Social Policy in Brazil". *desiguALdades.net* Working Paper Series 94, Berlin: desiguALdades.net International Research Network on Interdependent Inequalities in Latin America.

Lin, K.-H. and Tomaskovic-Devey, D. (2013). “Financialization and U.S. Income Inequality, 1970–2008”, *American Journal of Sociology*, 118 (5), pp. 1284-1329.

Salama, P. (2011). “Luchas contra la pobreza en América Latina: El caso de la pobreza rural en Brasil”. *Revista Problemas del Desarrollo*, 165 (42), abril-junio 2011

_____ (2012). “¿Cambios en la distribuición del ingreso en las economías de América Latina?”. *Foro Internacional 209*, LII, 2012 (3), 628-657

_____ (2015). “¿Se redujo la desigualdad en América Latina? Notas sobre una ilusión”. *Nueva Sociedad* No 257, julio-agosto de 2015

Stockhammer, E. (2008). “Some Stylized Facts on the Finance-dominated Accumulation Regime”. *COMPETITION & CHANGE*, Vol. 12, No. 2, June 2008 184–202

____ (2009). “Determinants of functional income distribution in OECD countries”, *IMK Studies* 5/2009, pp. 1-57

Köhler, K., Guschanski, A. and Stockhammer, E. (2015). “How does Financialisation Affect Functional Income Distribution? A Theoretical Clarification and Empirical Assessment”, *Post Keynesian Economics Study Group*, Working Paper 1507.