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# **How Social Developmentalism Reframed Social Policy in Brazil**

Lena Lavinás



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# How Social Developmentalism Reframed Social Policy in Brazil

Lena Lavinás

## Abstract

This paper proposes to critically situate the social-developmental current of the last decade within the broader moment of finance-dominated accumulation regime, wherein, crucially, credit and access to financial markets have become the core motifs for the new mass-consumption market society. This structural move is, from our point of view, radically distinct from the very framework which inspired the tenets of early structuralist thought and which prevailed during the Keynesian post-war period. Today, highly segmented credit loans, private insurance, and other new financial products such as payment protection insurance have synthesized into indispensable elements for growth. In this new financialized framework, social policy has been used to underwrite a financial inclusion model that sowed the seeds of its own demise—while it enabled Brazil's transition into a society of mass consumption, it also deepened the indebtedness of households, partially transforming social insurance and welfare benefits into financial rents.

**Keywords:** Brazil | social policy | financialization | social developmentalism | household debt

## Biographical Notes

Lena Lavinás is Professor of Welfare Economics at the Institute of Economics at the Federal University of Rio de Janeiro. In 2005, she was appointed Senior Researcher (Level 1) at the Brazilian National Research Council (CNPQ). She holds a Ph.D. in Economics from the University of Paris. Most of her research focus on Brazil's economic development; redistribution issues, social policies and institutional arrangements; comparative analysis of welfare regimes in Latin America; reforms of social protection systems; demographic changes and labor market issues, focusing on gender asymmetries; and public policy evaluation. She was appointed Visiting Research Scholar and Visiting Professor in the Program of Latin American Studies (PLAS) at Princeton University in 2013. In 2012 and 2014, she was invited as a Visiting Research Fellow to *desiguALdades.net*. She has also been Senior Social Policy Analyst at the ILO from 2000 to 2003. From 1993 to 2000, she worked as Senior Economist, at the Social Policy Direction, at the Institute of Research in Applied Economics (IPEA), at the Ministry of Planning, Brazil. In 2015 she co-edited *A Moment of Equality for Latin America? Challenges for Redistribution*, (with Barbara Fritz), Burlington: Ashgate, 2015; and authored *Avaliando a Inclusão Digital pela Escola: o projeto UCA-TOTAL*, São Paulo: Hucitec Editora, 2015.

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## 1. Introduction<sup>1</sup>

The magic of finance is its ability to take by giving, to spread growth while denying to those who might partake of it the very wealth it puts in view (Martin 2002: 16).

Economists and scholars have largely celebrated the path of economic growth in Brazil at the turn of the millennium, marked as it was by the expansion of the domestic market and the incorporation of millions of new low-income consumers into the formal economy. In this process, the scope and scale of the Brazilian market society grew rapidly, radically, and definitively. This trend signaled Brazil's transition into a new mass consumption society – a true novelty relative to the previous era of robust economic development in the 1970s, which tended to favor the middle and upper-middle classes predominantly.

This new model – social developmentalism – combined economic recovery with real gains in average earnings, massive job creation, as well as inequality and poverty reduction. In theory, the proposed cycle of growth would follow the Keynesian paradigm of development, which long predicted that as wages rise, a resulting expansion of consumption would promote demand growth, investment, an increase in productivity levels, and stimulate innovation – fueling a positive feedback loop of growth.<sup>2</sup> This trajectory, it was argued, would raise wages and strengthen the redistribution of income, which would henceforth promote a more socially inclusive development path in Brazil.

And yet, in prioritizing the domestic market as the central engine for development, this model lost steam, trapped in a spiral within which investment and productivity gains failed to materialize according to expectations. What is more, the critiques and queries within the social developmentalist framework are done in a circular fashion, without aggregating, it would seem, elements that have been constantly disregarded in the formulation and implementation of the “hybrid politics” (Morais & Saad-Filho 2011: 525) that guided the new strategy of development.

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1 I thank Ana Carolina Cordilha, MA student in Economics, for her valuable assistance in obtaining the data and in the elaboration of the figures. Special thanks are due to Prof. Alfredo Saad-Filho, colleague at the SOAS – University of London, who introduced a highly interesting bibliography on international financialization trends, which proved worthwhile. Besides, he also provided very useful remarks. I am also grateful to Prof. Luiz Fernando de Paula for his valuable comments to a previous manuscript and especially to Eudes Lopes with whom many ideas developed in this paper have been discussed in depth.

2 See Palley (2013: 203) for the Keynesian era virtuous circle growth model.

Curiously, social developmentalist economists neglected to place a fundamental dimension of this new framework in the foreground: credit – notably, consumer credit. Indeed, social developmentalists are likely to consider credit as a mere input (albeit a highly relevant one), and as a “voluntary exchange of equivalents between two consenting parties”, but not as a core motif for Brazil’s transition into a society of mass consumption, wherein, according to Susanne Soederberg, “class-based power and exploitation are less visible and less politicized than in [the previous eras of] wage-labor/employment relation” (Soederberg 2014: 4).

It is perhaps no surprise then that Brazil became an exemplary case study of the financial inclusion framework for low- and middle-income consumers, especially for those who still hold precarious jobs and/or cope with poverty. This is a widespread global trend,<sup>3</sup> but Brazil served as the emblematic success story. Particularly, the Brazilian state, under the Workers’ Party, retooled social policy as collateral to guarantee access to consumer credit in order to boost domestic sales and other financial products such as health insurance and college loans to compensate for the lack of public provision. The broader effects of this new dependence on credit and on other financial products – not to mention the new role of social policy in the consolidation of this dependence – have been largely disregarded in recent social developmentalist debate.

This paper proposes to critically situate the social developmentalist current of the last decade within the broader moment of finance-dominated accumulation regime (Stockhammer 2007), wherein, crucially, credit and access to financial markets have become the core motifs for the new mass-consumption market society. This structural move – while celebrated by some – is, from our point of view, radically distinct from the very framework which inspired the tenets of early structuralist thought and which prevailed during the Keynesian post-war period. Today, highly segmented credit loans, private insurance, and other new financial products such as payment protection insurance<sup>4</sup> have been synthesized into indispensable elements for growth. Social policy has, in turn, been retooled so as to capture a pool that far outnumbers the rich and the very rich – notably, the poor, the vulnerable, and the lower working class. Here, credit is meant to bridge the gap between consumer demand and market supply in order to foment consumption and to ensure wellbeing through re-commodification. This trend has spread quickly. By the end of 2015, the level of household indebtedness stood at 48%, as compared to 18.42% in early 2005 (BCB 2015). Meanwhile, nominal interest rates in Brazil remain extremely costly, especially for consumption goods, which even

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3 Susanne Soederberg’s paper (2013) and book (2014) brilliantly trace how financial inclusion has become a universal issue, driven by the G20 and other multilateral agencies.

4 On the growth of instruments that protect against the credit risk of tuition payment plans, credit sales, lease agreements and other contracts (see e.g. Neri 2009).

in the short term range from 30% to more than 140% per year (ANEFAC 2016) for personal loans, and continue to move up.<sup>5</sup>

In the new financialized framework, social policy was used to underwrite a financial inclusion model that sowed the seeds of its own demise – while it enabled Brazil's transition into a society of mass consumption, it also deepened the indebtedness of households, partially transforming social insurance and welfare benefits into financial rents. Worse, this debt promises to grow quickly under the fiscal adjustment period currently under implementation, which has been wracked by a sharp increase in interest rates as entitlements and social welfare rights are curtailed for the sake of austerity (Lavinás 2015b). High levels of household indebtedness may delay attempts to foment a new period of economic recovery, particularly in a context in which social policy is pro-cyclical rather than counter-cyclical.

This paper proceeds as follows:

First, I explain the social developmentalist model and the limits it faces as it not only overlooks the structure of social spending – a non-inconsequential trait – but also the patterned ways in which financialization reversed the original structuralist framework. Second, I explain the fundamental limitations of the instrumentalization of the social domain for political and economic purposes via the use of social policy as collateral for access to the financial sector. I argue that this new social model advanced a new wave of mass-consumption via a financialization framework.

Here, the logic of social protection was overturned: instead of guaranteeing security against periods of economic volatility, this framework deepened the scope and impact of cyclical trends. Ultimately, I show that deeper levels of indebtedness of Brazilian households – and not only further redistribution of income – fomented the recent transition.<sup>6</sup>

Finally, I explain that while social developmentalism marked such a structural move to a society of mass consumption, it did not unveil a broader structural shift that would overcome social and productive heterogeneity. In short, I suggest that the “social

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5 In March 2013, the annual nominal interest rate in the retail sector for personal loans was 60.10%, skyrocketing to 92.29% in January 2016. Annual average interest rates in both periods for consumer credit were, respectively, 87.97% and 142.74% (ANEFAC 2016).

6 Despite a positive trajectory of real increases, average earnings in Brazil remain relatively low (R\$ 2,000 is the average monthly labor earnings in December 2014, or less than USD 700). It is worth recalling that 84% of all 21 million formal jobs created in the period 2003-2014 have monthly wages that are less than two times the minimum wage (or approximately USD 525) (see PNAD, IBGE 2015b).

developmentalist state” was the principal guarantor of the collateralization of social policy in one of the world’s most consequential emerging markets.

## 2. The Financialization Trap

In Brazil, the turn of the 21<sup>st</sup> century brought with it not only the unveiling of the new millennium, but also a promise that after two decades (1981-2003) of tepid growth (2% annually, according to BCB 2015), persistent economic instability, high inflation (until 1994)<sup>7</sup>, and unemployment (see PNAD, IBGE 2015b), a sustainable trajectory of development would be forged, henceforth bound to the expansion of a domestic market of mass consumption. This shift – from a “domestic market with concentrated wealth and income” (Bielschowsky & Mussi 2013: 163) to a modern market society – would be structurally substantial and have lasting effects.

Needless to say, the perennial concern with the lack of scale of the domestic market, whose expansion was inhibited by factors of a structural kind, had long been key to seminal structuralist thought, in addition to having been the kernel of its *catching up* strategy. Sociologist Octavio Rodríguez of CEPAL sums up well the enduring challenges identified by structuralist thinkers in the shift towards a market society (Prebisch 1949; Furtado 1961; Pinto 1970). He writes,

The image before us [in the Latin American region] is that of economies that see their growth limited, if not impeded, by repeated shortfalls in the expansion of demand for various kinds of consumer goods, which may be decisively related to income distribution profiles marked by high concentration, this linked to the superabundance of labor and consequent limitations on rising salaries (Rodríguez 2009: 319).

From this perspective, the core impediment to the expansion of market societies resided (above all else) in the absence of mechanisms for boosting consumption in the context of low productivity and of persistent over-supply of labor (Pinto 1970).

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<sup>7</sup> From 1990 to 1994, the annual average inflation rate reached 1.158%. After the Real stabilization plan, adopted in 1994, it dropped to 9.4% p.a. in the period 1995-1998, and later on, from 1999 to 2003, to 8.9% p.a. (Hermann 2010).



The social developmentalist model<sup>8</sup> intended to address and forge crucial missing links on the demand-side in order to invigorate the economy. According to this framework, a virtuous cycle of development would be engendered through demand – fueling investment, increasing productivity gains and raising real wages, thereby expanding consumption and scaling up the reproduction of the cycle, which would (in the end) consistently propel upwards the aggregate value curve.

Unleashing in record time historically-repressed demand without cultivating the incubation period required for investments in infrastructure, high-skilled labor training, and technological advancement became a ‘second best strategy’. The temporality of politics does not wait. It was deemed that the vast structural barriers to growth would be overcome via a dramatic expansion of domestic aggregate demand, supported by increases in real income and public spending, as well as a better distribution of income, which would necessarily follow. This framework is explained in detail by Ricardo Bielschowsky – one of its pioneers – in numerous pieces outlining the three “expansion fronts” that would be spurred on by demand to promote long-term development: (1) mass consumption, (2) natural resources, and (3) infrastructure (Bielschowsky 2012).

The premise for the success of such a strategy was framed in line with the Keynesian paradigm, on the one hand, which treats investment as a precondition for the expansion of effective demand, and with a Kaldorian inflection, on the other, according to which innovation would follow investment boosted by increases in demand. It is important to note that little if nothing has been said about the role of social policy in securing this growth model. If, in the Fordist regime, the social protection system was a pillar of the development of 20<sup>th</sup> century capitalism, combining innovation and productivity gains with effective redistribution (Boyer 2015),<sup>9</sup> in the social developmentalist framework, wages and social spending hikes are mere inputs for fueling aggregate demand – not a cornerstone of the accumulation regime.

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8 Throughout this article, we are in conversation with the social developmentalist current of economic thought – also termed “redistributive developmentalism guided by the state” (Bastos 2012) – and its focus on wage-led growth, which places the domestic market of mass consumption as the central engine for investment and industrial transformation. This growth model was favorable towards a particular articulation between social policy and political economy, the key object of our reflection.

9 Robert Boyer reminds us that the Fordist regime, which resulted in three decades of prosperity, heightened social justice and further equity, was bolstered by two central pillars: technical-technological progress and institutional innovations in the social-reproduction sphere. These key building blocks made (1) universal access to education and to high-skills training an achievement of democracy; (2) decommodified access to health care, housing and other goods and services a priority; and (3) the development of a progressive tax system with emphasis on the redistribution of individual wealth a strategic focus. These were foundational principles of welfare capitalism (Boyer 2015: 302).

Indeed, intellectuals in progressive circles of all kinds in Brazil celebrated the social developmentalist strategy, even while conscious of its limitations in the medium to long term. Ricardo Carneiro (2012), for example, recognizes the persistence of repressed demand for economic and social infrastructure and suggests that an expansionary strategy built on mass consumption would succeed only as a starting point, breaking with the inertia of historically rooted barriers. He warned, however, that such an impulse would start to lose steam over time, demanding, in turn, a new policy that privileges investment.

Likewise, Denise Gentil points out the limitations of the “income policy” due to a “fragmented and incomplete growth model, which shows a capacity for redistribution of income via social policies (including retirement benefits) of limited endurance” (Gentil 2013: 12). From this perspective, macroeconomic policies failed to bolster investments and ultimately stymied the endogenous economic push that surfaced thanks to increased social spending in the domestic market.

Even Bielschowsky would come to concede to a lack of complementarity among the “three motors of investment” or “expansion fronts” in fomenting a new path for growth – a major flaw of the social developmentalist model, according to him (Bielschowsky 2012: 737). Indeed, in a recent text which discusses the benefits and drawbacks of the three motors strategy, he warns that “for the model to work well in the long term [...] the three motors of investment would need to be empowered by two engines: productive linkages and technological innovation” (Bielschowsky 2014: 28). In sum, he attributes the resilience of structural rigidities in the Brazilian industry to the low investment rate of the manufacturing sector.

As is known, the awaited industrial ‘catching up’ did not materialize. The structural bottlenecks that plagued the productive sector persisted – exacerbated by decreasing levels of productivity only temporarily compensated by an expressive increase in imports of goods of all kinds (notably durable ones) fueled by an over-appreciated currency.

In his analysis of the recent evolution of consumption patterns in the Brazilian economy, Carlos Medeiros argues that at the domestic level, between 2003-2010, the sector that reported the highest number of increases (of a total of twenty-two sectors was the financial services industry (8.4% annual growth), followed closely by home appliances (7.8% annual growth). Yet, in comparing national consumption with imports, Medeiros found that the average annual growth rate of home appliance imports was much larger, in addition to having been the highest among all of the sectors studied, with 33.8%

annual growth rate (Medeiros 2015: 119-120). It is thus important to recognize that the expansionary effects of aggregate demand in stimulating productive activity were limited by the dynamic of imports in the economy, which restricted, also, the multiplier effects of increased social spending in the domestic economy.

I, however, express skepticism that the problem originated in a break from a sequence of steps or in the sudden derailment of an economic policy trajectory, which could be avoided had the “social developmentalist state” been more responsive in leveraging public investment as economic activity decelerated.

In what follows, I suggest that this reading is insufficient for two reasons:

First, it frames social policy exclusively as a corrective tool against market failures (Barr 2004; Lavinás 2013a, 2013b, 2015a), deepening a social model that first transpired during the Fernando Henrique Cardoso administration around the expansion of safety nets designed to foment the incorporation of the excluded masses into the market and to raise the minimum wage. The melding together of various, previously dispersed, cash transfer programs into Bolsa Família (Lavinás 2013a) reflects this principle: standardize rules that scale up anti-poverty schemes in order to amplify and stabilize a demand that had previously been restrained. The other fundamental tool with the same objective and direction was the real appreciation of the minimum wage, which was undoubtedly the backbone of this model from the regulatory side. And yet, the social developmentalist paradigm ignored completely and repeatedly the distinctive legacy of social policy under the Fordist regime: namely, the promotion of a decommodified labor force (Polanyi 1949) via the public provision of goods and services that is at once universal, unconditional and irrespective of individual income and wealth. This short-sightedness is surprising in a context where the institutionality of social security and legal rights guaranteed by the 1988 Constitution could have complemented each other in accordance with the new “growth pattern” (see Ferrari and Paula 2015).

It is worth recalling that the Fordist regime relied on a progressive tax system marked by vertical redistribution. It entailed massive investments in the social domain in order to ensure a well-regulated infrastructure open to all (housing, sanitation, education, public and high quality health care, and public transportation), in addition to universal and free services designed to enable a more egalitarian mass consumption society that would strengthen demand and secure constant gains in the production of aggregate value. Yet, the social developmentalist model was built around the predominance of social spending in the form of cash (3/4 of the federal social spending are cash). It embraced a liberal bias in the strategy adopted to combat poverty (Lavinás 2013a)

and incentivized the commodification of education, health care, public transportation, and housing, against the backdrop of recurrent deficiencies in the provision of public goods in a regressive tax system, which ultimately concedes limitless incentives and exemptions to the wealthy and to capital.

One may also recall the Japanese and South Korean experiences in the post-war period. As Peng explains, “Japan and Korea owe much of their post–World War II social and economic development successes to their countries’ social investment policies – policies that are aimed largely to advance economic growth through the human capital development” (Peng 2014: 390). Both countries privileged highly productivist welfare regimes to support the industrialization process and boost development. To this end, universal public education and healthcare were key factors for the sake of improving a positive complementarity between social protection and economic growth. In parallel, they developed a strong and efficient Bismarckian social protection model to provide security for those participating in the workforce. As a result, Japan and Korea achieved rising household income, low levels of income inequality, and high levels of human and physical capital – profoundly transforming traditional societies over the course of a few decades (Peng 2014). Both overcame internal heterogeneous structures to succeed in their catching-up strategies, proving that social policy played a central role in paving the way towards a new development path, a trend similar to what happened in Western economies.

Second, social developmentalism continues to be dominated by references to structuralist thinking, deeply embedded in a framework that prevailed between 1950-80 during the state-led industrialization period (Bértola and Ocampo 2012). To date, it has yet to systematically take into account the new momentum of globalization, financialization and neoliberal trends (Epstein 2014). For Epstein, these three world-historical processes marked the turn of the new millennium, but it is as if they remain overlooked – if not even missing – in the social developmentalist framework. Here, it is as if finance did not reshape many basic features of contemporary capitalism. Needless to add, it did: “the rise of finance has not only reshaped the State *but State actions have also accelerated the turn to finance*” (Krippner 2012, emphasis added).

There is no single concept of financialization, but rather a wide range of phenomena (Stockhammer 2007) that shapes this new accumulation regime. Many economists (Crotty 2014; Fine 2013; Sawyer 2013) hold that this phenomenon entails the reduction in the efficacy and in the overall levels of real investment and chronically weakens the growth of global aggregate demand in contemporary capitalism. As a result, increased profits do not translate into higher investment (Stockhammer 2007). According to these

authors, the fall in productivity levels was a consequence of the deleterious impact that financial instruments and regulation have had on economic development.

With regard to the Brazilian case, Bruno et al. (2011) have been calling attention to the way financialization has inhibited the rise of the investment rate in the country for exacerbating the preference for liquidity by holders of capital, an insight in line with Keynesian thought. As a result, financialization also curbs and even obstructs economic growth in particular in developing countries for it is detrimental to the long-term immobilization of capital in the productive sector that is necessary for investments to mature. Regarding the Brazilian case, the authors show that after 1990, when the process of financial liberalization in the country started, investment rates and corporate profit rates that used to move altogether – at the same pace and in the same direction – for decades, took different paths: while the former drops and recovers very slowly, the latter shoots up, widening the gap between corporate profits and investment rates.

With this in mind, I might return to the contribution from José Carlos Braga (2013), where he casts financialization as a systemic pattern of wealth, the impact of which goes far beyond sucking liquidity away from industrial to financial circulation. In his view, it comes to characterize the strategies of all the relevant private agents, with “interest-bearing capital”<sup>10</sup> at its center, “whether it comes from large industrial or commercial corporations, banks, landowners, institutional investors, or personal financial savings” (Braga 2013: 90). Thus, interest-bearing capital comes to organize not simply economic activity, whatever form it may take, but also takes in other aspects of the reproduction of life that had escaped the logic of the market under previous accumulation regimes. Now, the public provision of goods and services is not merely re-commodified, but also absorbed into the financial logic that places interest-bearing capital as the key to accessing well-being, and which in turn feeds the deepening indebtedness of ordinary families.

This shift has been underappreciated in the social developmentalist matrix, whose strategies were aligned in defense of a *modus operandi* in the name of development. In reality, this approach overlooked the fact that without coming to terms with structural heterogeneity, the so-called material expansion or transition towards a society of mass consumption would only have emerged as a consequence of the access and scale that finance offers, despite slight improvements in income distribution.

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10 “Interest on money should be strictly understood as the supreme manifestation of capital as pure property, as a fully-fledged ware, as a strategic asset peculiar to a monetary economy, generated by companies whose ultimate aim is not the exchange of merchandise for merchandise, but rather the circuit of money-merchandise-more money” (Braga 2013: 90).

In his exposition of the many facets of financialization, Ben Fine threads together many of the elements referenced above, but also details other dimensions of this phenomenon, such as the

[prioritization of] shareholder value or financial worth over economic and social values; the proliferation of all types of assets; the absolute and relative expansion of speculative as opposed to or at the expense of real investment; consumer led-booms based on credit; and the penetration of finance into ever more areas of economic and social life such as pensions, education, health, and the provision of economic and social infrastructure, [among others] (Fine 2013: 6).

I suggest that financial valorization was engineered well beyond the productive sector and into social policy, reworking (in highly consequential ways) the sphere of reproduction, which under the domination of financialization, was re-commodified via the incorporation of health insurance plans, tuition loans, private pension funds, and other forms of insurance and credit loans, including even the subsidization of daily consumption. This stage of financial innovation holds “individual loans secured by income” as one of the building blocks of a securitization dynamic that enables the continuous renegotiation of debt excluding the risks of moral hazard for creditors.<sup>11</sup>

Scholars of financialization (Epstein 2014 Palley 2013; Sawyer 2013; Fine 2013; Stockhammer 2007) have pegged the high rates of growth in debt levels among families as one of the most constitutive elements of the new accumulation regime, a dimension that was given short shrift in the social developmentalist framework. Here, it is as if consumption was not sustained by the expansion of credit in the recent cycle of economic growth, just by earnings.

Accordingly, in the place of decommodification, social policy was subsumed and diverted into the logic of financialization, whose expansion in the form of financial services consolidated into an intensive and wide-ranging force, concomitant with the growth of material goods and services supplied by the market. In practice, this has entailed a massive income transfer from the real economy to the financial sector.

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<sup>11</sup> On the markets for debt renegotiation, see Marques (2015). The article uncovers how debt maturity extensions help obviate insolvency, but in return for higher interest rates. In 2015, in just six months, from SERASA Experian alone, 71,000 debt agreements were repackaged, under contracts that represent a total value of R\$ 206 million. A modest sum, if compared to the R\$ 40 billion in credit from Recovery, a former BTG Pontual company that recovers insolvent loans and is now owned by ITAU, the largest Brazilian private bank (Marques 2015).

In the next section, I demonstrate how the recent mass consumption growth model in Brazil retooled social policy as collateral in order to secure against financial moral hazard and to bring low- and middle-income consumer masses into the financial rubric and by the same token spread mechanisms of financial inclusion.

The collateralization of social policy transforms retirement benefits and pensions into financial assets. This shift revives the classic liberal private law doctrine, according to which,

the secret to development lies in the legal unlocking of the transformative power of collateral: when property is registered, it can be easily transferred and when property can be transferred it can also be posted as collateral in order to secure credit. Credit, in turn, is the precondition of economic growth (Riles 2011: 5).

In this process, social policy is made primarily to solve market failures, as opposed to underwriting structural transformations of profound asymmetries, whether in the social or productive sphere (Lavinás 2013a, 2015b, 2015c). What predominated in the social developmentalist period in terms of social policy were conditionalities, growing commodification of well-being through privatization and the collateralization of social policy, rather than universal policies that “not only help to create productive employment but are also central to promot[ing] social mobility, mitigating income inequalities, and fortifying the social cohesion and sense of trust that facilitate high productivity” (Lo Vuolo 2015: 24). In the process, the financialization of the economy moved beyond the sole transfer of significant sums of national wealth over to holders of public treasuries – equivalent to 8.5% of GDP in 2015, due to a stratospheric hike in the SELIC basic interest rate (currently 14.25% p.a.) – reaching a broader, and more consequential rationale, through the securitization of social policy (BCB 2015).

If, as Fernando Ferrari and Luiz Fernando de Paula (2015) suggest, “a growth pattern [...] is not automatic and does not reproduce itself spontaneously [...] [but] requires a deliberate economic policy to become viable”<sup>12</sup> (Ferrari and Paula 2015: 5), it is then important to inquire how social and economic policies complemented one another and what kind of institutional configuration prevailed.

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<sup>12</sup> Ferrari and Paula draw on Ferrari and Fonseca’s (2015) concept in order to define what is a “new pattern of growth”: the articulation between a trigger variable with other components of aggregate demand, especially public and private investment (Ferrari and Paula 2015: 5).

### **3. A Turn in the Brazilian Welfare Regime: Collateralization Instead of Decommodification**

The distinctiveness of the social developmentalist model emerged out of a key paradox: the broad accommodation of a far-reaching macroeconomic policy which social developmentalists had originally set out to overturn – namely, excessive primary surplus targets (also nourished by the Social Security Budget via the DRU<sup>13</sup>), exorbitant interest rates (albeit in decline), and a persistently overvalued currency (as a result of the macroeconomic tripod). If, on the one hand, this economic policy worked to fuel the domestic consumer market, on the other, it exposed gaping loopholes in the development strategy, as a massive flood of imports ensued, which weakened further the already debilitated manufacturing industry. Put simply, the “Lulista formula,” as André Singer terms it, “reduced, but failed to eliminate, the conservative legacy in the economy” (Singer 2012: 147).

Throughout the previous decade, in concert with the development of macro-economic policies with a sharply orthodox inflection, the social protection system began to show signs of deconstruction. This tendency was visible under the Cardoso administration, but was expected to be countered by the Workers’ Party administration and their new development model.

Two sectors particularly affected by the logic of financialization may serve as examples: healthcare and higher education.

Healthcare was not spared this wave of privatization and financialization, though the 1988 Constitution had instituted a public, universal, and unconditional system. The universal healthcare system (SUS) experienced a devastating onslaught of incessant underfinancing (Lavinias 2013b; Bahia 2013), as well as growing over-targeting practices radically opposed to the founding principles upon which the system was conceived and built. This meant moving in the direction of a service for the poor, for “those who can’t pay for insurance,” while private medicine would take care of those with the resources to pay for plans, taking advantage of hefty deductions for personal and corporate income taxes.

This idea is a legacy of the period of the dictatorship (starting in the 1960s), when repression of the workers’ movement led several coopted unions to accept the first corporate coverage plans (Bahia 2015). Since health service offerings were patchy, the growing working class, which was employed at large modern companies, called for

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13 Mechanism for de-linking of Federal revenue.



better healthcare with the support of their unions. Gradually, demands for healthcare plans and insurance spread to mid-size companies, and then the associations and unions for civil servants and liberal professionals, drawing in families and individuals from higher-income segments. The growth and diversification of the activities of health plan providers attracted domestic investors and international insurance companies. Today the sector is highly concentrated, increasingly international, and publicly traded, having benefited from broadly favorable legislation.

Over the course of the privatization of healthcare services, major unions have played a crucial role. This explains why, for example, private healthcare became a part of work remuneration, a fixture in collective bargaining, often offering deficient and ineffective coverage that wound up resulting in considerable out-of-pocket spending for families. This is a source of profound financial vulnerability: in the event of unemployment or a decrease in family income, the plan may even be abandoned.

At the moment, private healthcare coverage can only be obtained collectively, and is almost always mediated by organizations representing unions – which, in practice, often do not function as such. Evidently, specific legislation meant to encourage the broadening of private medical assistance has benefited from tax deductions for consumers and waivers for service and insurance providers.

Faced with the deteriorating State provision of healthcare, one falls back on the private sector. In the absence of income or savings to cover these unexpected expenses, the answer is to take out bank loans. By way of illustration, private healthcare spending has outstripped public (5.01% of GDP for the former, 4.6% for the latter) in a country that opted for a system inspired by the British National Health Service. As if this bias weren't enough, private spending is mainly out-of-pocket (57.8%), while spending on healthcare plans comes to 40.4% (IBGE 2015a). That means high risk and exacerbated vulnerability, which can often only be dealt with by resorting to bank loans. Let us not forget that Brazilians' financial reserves are quite low. According to the Brazilian Central Bank (BCB 2015), as of 2014, only 12% of adult Brazilians had savings accounts, as opposed to 23% across the BRICS and 52% in high-income OECD countries.

This is another paradox of the Brazilian social protection system: the scale of basic healthcare services, with clinics multiplying at the municipal level,<sup>14</sup> strengthening targeted access (for the poorest) to the detriment of universal coverage, has not managed to check the growth of complementary insurers – quite the contrary. According

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<sup>14</sup> These clinics are not always staffed with doctors, but rather with community health agents and nurses.

to the ANS (2016), 50.3 million Brazilians have private health insurance, with 33 million of those on collective plans. Another 21 million have private dental plans, for a total of 71 million persons insured. But the share of Brazilians that request lab work, testing, and private medicine is much larger, and includes some of the insured, since coverage is not always full or satisfactory. This is the problem with signing on to a healthcare plan: unaware of the risks and limited by income, one chooses an affordable plan blindly, unable to foresee illnesses or future health complications.

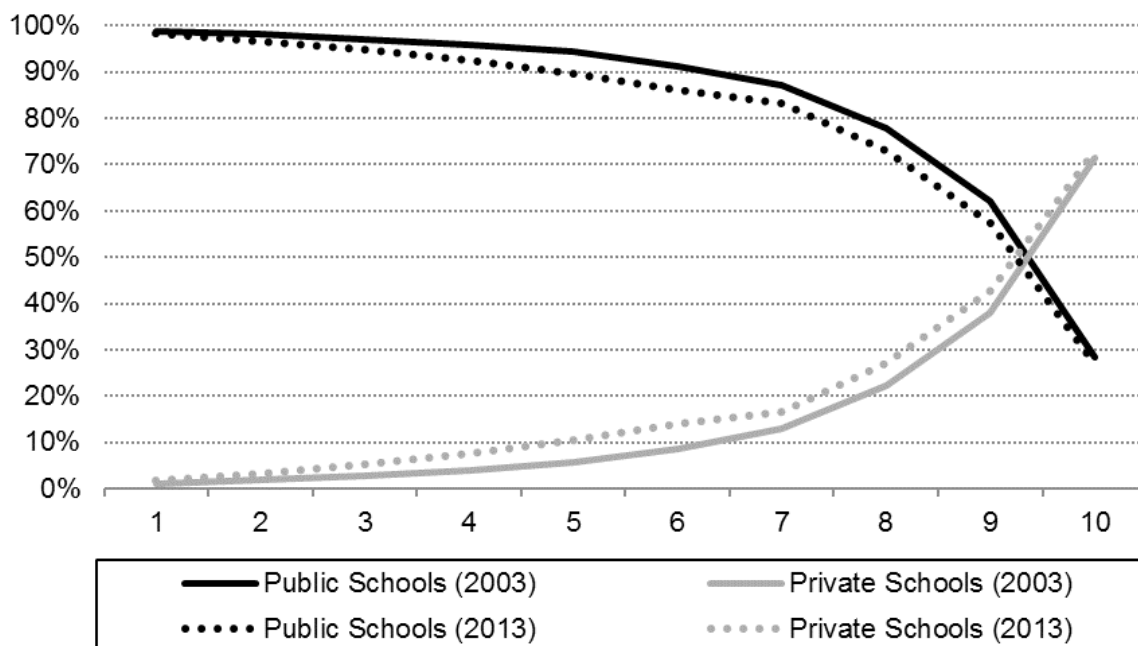
Furthermore, with regards to education, the advance of private provision and the use of educational credit have outpaced the growth of public investment – which, in higher education, has stood out for the implementation of quotas for low-income students from public high schools (REUNI) and the creation of universities<sup>15</sup> in a number of regions.

Figures 1 and 2 demonstrate that throughout the last decade, in spite of being marked by slight increases in public spending in education, the share of public schooling declined in all deciles of the distribution, except for the top decile when it comes to college education. This shows that the better-off improved their participation in public and free universities, which are highly ranked and have minimal tuition costs. The general trend, nevertheless, affected elementary and middle schooling, in addition to higher education as household spending on education literally spread and deepened, burdening even low-wage groups.

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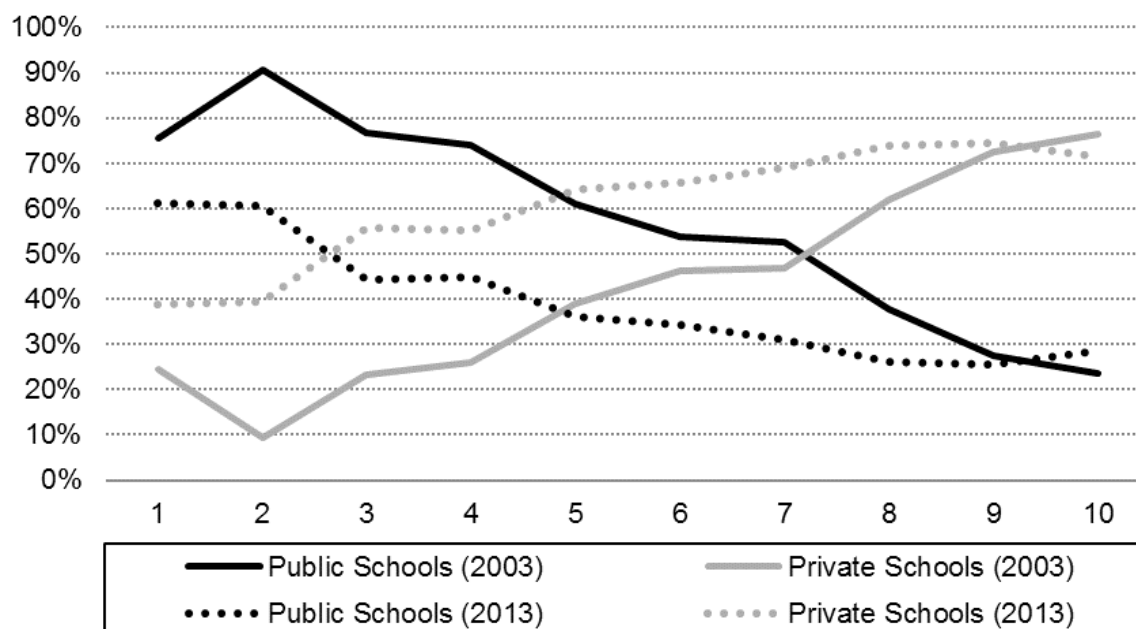
15 A total of 14 federal universities were created. Meanwhile, the Program for the Restructuring and Expansion of Federal Universities (REUNI), sought to improve existing institutions and dramatically expand class sizes at public institutions.

**Figure 1: Access to Public and Private Elementary and Middle Schools for Pupils and Students Ages 5-17 by Income Deciles (2003-2013).**



Source: Own elaboration based on data from PNAD (IBGE 2015b).

**Figure 2: Access to Public and Private Colleges or Universities, Students Ages 18-25 by Income Decile (2003-2013).**



Source: Own elaboration based on data from PNAD (IBGE 2015b).

In terms of higher education, two simple indicators lay bare the ambiguities of an educational system that wound up stimulating private provision, in part through an explosion in educational credit. For one, 85% of schools of higher education in Brazil are private. Secondly, while in 2003 the percentage of students at private universities stood at 70%, by 2014 it had risen to 74% (INEP 2015).

This ballooning of private higher education benefited from the introduction of PROUNI<sup>16</sup> and the considerable growth of educational credit<sup>17</sup> following the restructuring of the Student Financing Fund (FIES) in 2010. Interest rates were cut to 3.4% p.a. (as opposed to 6.5%, previously)<sup>18</sup> and debt amortization was extended to more than three times the length of one's studies, plus 12 months, with a grace period of 18 months. As a result, the number of new FIES loans per year went up to 732,000 in 2014, from 76,000 in 2010 and 44,000 in 2004. Between 2010 and 2014 alone, federal spending on the program went from R\$1 billion to R\$13.7 billion. One might note that as of 2014, 59% of students at colleges run by Kroton/Anhanguera,<sup>19</sup> the largest private educational group in Brazil and now a world leader, were FIES beneficiaries. Many of these institutions also provide their own lines of financing, with their own regulations and interest rates (INEP 2015).

Now, it is true that of the social policies that marked this period, the one with the most sweeping impact was the revalorization of the minimum wage. From 2003 to 2014, it grew in real terms by almost 70%, while average earnings went up by 43% in that same period. This readjustment was based on the consumer index of the previous year plus the growth rate of GDP two years prior. This factor, in addition to the creation of more than twenty million jobs in the formal market in the last decade, mutually sustained household consumption, which was responsible for approximately 61% of GDP over the period 2003-2014. In that same period, retail sales more than doubled, according to the IBGE's Monthly Commerce Survey. Gross fixed capital formation (GFCF), meanwhile, stood at an annual average of around 20%. Exports showed a steady decline, falling from 15% during the first phase of the cycle to 11.5% of GDP in 2014, for an average of 13% (Gentil 2015).

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16 PROUNI, or the University for All Program, created in 2004, awards full or partial (50%) scholarships to students from poor families and public high schools to study at private institutions – which, moreover, are tax-free.

17 Educational credit was introduced with CREDUC, in 1971. It offered loans to finance undergraduate degrees at private colleges. In 1999 it was substituted by FIES, under the Cardoso administration.

18 In 2015, under the fiscal adjustment introduced by Rousseff, FIES' interest rates returned to 6.5% p.a.

19 A publicly traded company, with 70% of its capital in the hands of international groups from the United States, China, South Africa, and Singapore.

The key point here is that in terms of aggregate demand, the most important variable was household consumption. Its centrality stemmed not only from the elevation of salaries and labor income, but also from households' steep slide into debt. The core of this strategy was thus market incorporation via growth with debt, sidestepping persistent, divisive obstacles such as the country's productive and social heterogeneity (Lavinás and Simões 2015), the regressive nature of its tax system, and the paltry redistributive efficacy of social spending, given its failure to provide decommodified public goods.

Figure 3 gives a comparative outlook of the evolution (in real terms) of total wages, and the supply of total credit, personal credit<sup>20</sup> and consumer credit, which comprises different credit lines.<sup>21</sup> While total wages doubled between 2002-2013 (moving from 39.1% of GDP in 2002 to 43.1% in 2013, according to National Accounts, IBGE 2015a), total credit soared 250%, "the line of credit" allocated to consumer credit was raised by 300% within 2002-2014, while personal credit increased almost 4 times.<sup>22</sup> If we consider the period 2002-2014, total personal credit and consumer credit are the modalities that grew at a faster pace.

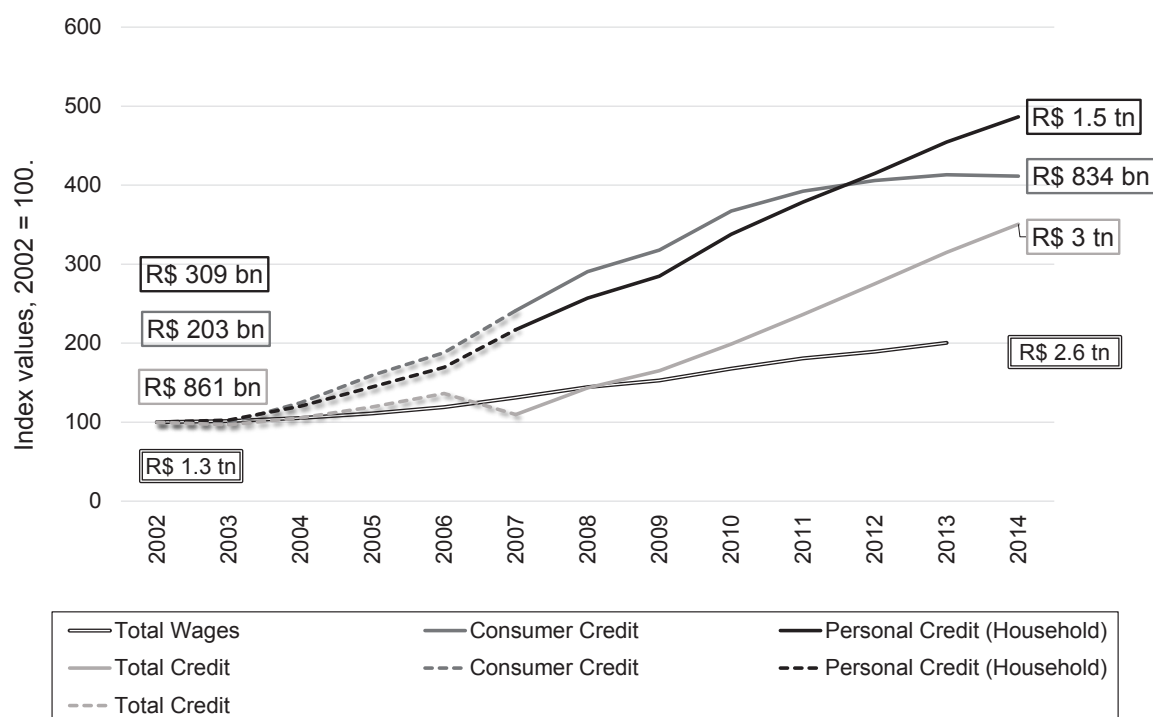
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20 Personal Credit is credit supplied to households and individuals, basically under two distinct modalities: either oriented (mortgages, for rural investments, and other collateralized loans) or "open" (generally known as "consumer credit").

21 Among the credit instruments to individual consumers included: overdraft banking services, consigned credit, non-consigned credit, automobile loans, credit cards, credit discounts and miscellaneous "open credit" (BCB 2015).

22 The new data series for credit allocated by the Brazilian Central Bank began only in March of 2007.

**Figure 3: Brazil, Indexes of Growth – Total Wages, Total Outstanding Credit, Personal Credit, Consumer Credit. Constant Reais as of December 2014 (2002=100).**



Source: Own elaboration based on data from IBGE (National Accounts) (IBGE 2015a) and Brazilian Central Bank (BCB 2016), data adjusted for inflation using IPCA December 2014 (IPEADATA 2016).

If we compare the rate of growth of total outstanding credit to the wage bill, we see that the former saw average annual growth of 13.8%, while the latter advanced 5% p.a. during the period in question. Consumer credit, meanwhile, grew 11.5% p.a. The data speak for themselves. By way of confirmation, Borça Júnior and Guimarães (2015) conducted an ordinary least squares estimation and concluded that consumer credit was responsible for nearly 45% of the growth in household consumption and 1/3 of GDP growth in that period. This supports my hypotheses (Lavinias 2015a, 2015b, 2015c) that, in addition to the bump in labor income and the reduction of wage dispersion, which spurred the growth of the domestic market and helped lay the foundation for a new phase of economic prosperity, credit and the financial system must be recognized as cornerstones of this new model for growth.

These consumer-credit-driven trends did not occur in a spontaneous manner, but rather became the centerpiece of the economic policy that defines the contours of the social developmentalist model. From our point of view, the use of social policy as collateral to secure access to credit both to sustain demand and to promote the transition to a

society of mass consumption has functioned as the institutional “trigger variable”, as coined by Ferrari and Paula (2015) within the social developmentalist framework.

And yet, even this gradual improvement in the personal (the Gini index drops from 0.581 in 2001 to 0.500 in 2013)<sup>23</sup> and functional distribution of income was not sufficient for the upswing in demand (IBGE 2015a).

The novelty of the social developmentalist model was the institutionalization of a long-absent connection between credit, on the one hand, and wages and benefits, on the other, with the state serving as the principal underwriter. These new institutional mechanisms surfaced even before the implementation of the Bolsa Família Program (2004) and the minimum wage revalorization rule (2008). Their reach was not limited to the credit market for low-income sectors, but was also connected to broader access to financial markets.

## **4. Mass Consumption without Convergence: A Structural Move without a Structural Shift**

### **4.1 Antecedents of the New Credit Boom in the 2000s**

By the end of the 1980s, Brazil had launched a process of financial liberalization in line with the main features that prevailed in advanced industrialized economies. Different measures and regulations have been adopted since then (see Hermann 2010), focused on diversifying stock markets and financial markets through the further accumulation of savings and the expansion of new private institutions. Contrary to what occurred in developed countries, in Brazil (as well as in most developing countries), short-term credit loans and the secondary market grew much faster than long-term loans and primary market issuance of credit.

With the consolidation of macroeconomic stability from 1994 onwards, under the first term of President Fernando Henrique Cardoso, financial liberalization gained new impetus. While credit loans as well as the stock market should have blossomed propitiously throughout the 1990s, both were ultimately restrained by two exchange rate crises<sup>24</sup> that severely affected the Brazilian financial system under reform. For this very reason, total outstanding credit as a share of GDP rose slightly and irregularly from 1990 to 2006, representing 24% and 28% in both extremes (BCB 2015). According to Hermann (2010), this relative stagnation proves that “credit hadn’t been a strong

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<sup>23</sup> Using the variable principal labor income from PNAD, for every month of September (IBGE 2015b).

<sup>24</sup>The Asian exchange rate crisis occurred in 1997 while the Brazilian one took place in 1999.

support to propel economic development in Brazil” (Hermann 2010: 265-266) for a decade and a half. Moreover, the macroeconomic context was also not supportive of economic growth. This first wave of financial liberalization contributed mostly to strengthening and expanding the stock market, rather than stimulating investment or consumption.

This picture has shifted since 2003 and 2004. New financial mechanisms were created specifically to reduce risks for lenders,<sup>25</sup> thereby enhancing the scope and scale of credit markets, which had been timid in Brazil until then. This move would also target and curb the financial exclusion of large numbers of people – a main feature of the incompleteness of financial markets – which remained widespread given high levels of informality<sup>26</sup> in the labor market, high poverty rates and other dimensions of financial vulnerability that demanded caution on the part of the formal credit system.

The fundamental bedrock of this new wave of financialization in Brazil was cemented with the creation of “Consigned Credit” in 2003, which would come to marry privileged access to consumer credit with lower interest rates (relative to the average interest rate) and compulsory and automatic payroll deductions paid to creditors.

Consigned consumer credit had been introduced long before in several countries (Trumbull 2013). In Brazil, however, it was put forward with a new functionality that came hand in hand with the reinvention of retail banking. One of the most important transformations throughout this process was the inclusion of families with low and unstable income who would frequently default on their obligations. In order to meet this demand in the short term, a new kind of credit instrument was instituted based on the collateralization of social benefits.

This policy started as a direct initiative from labor unions that supported the new Workers’ Party administration. At first, only civil servants could benefit, but soon thereafter this special credit line was extended to workers in the formal labor market,

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25 While interest payments are mainly determined by monetary policies, principal risk and moral hazard are ultimately a consequence of information asymmetries (Stiglitz and Weiss 1981), a structural trait of credit markets.

26 Informality impeded the tracking of cash-flows in the past, encouraging lenders in the financial sector to raise interest rates to compensate for excessive losses from defaults.



before also reaching retired citizens and RGPS pension beneficiaries.<sup>27</sup> Here lies its innovative quality: consumer loans would now be pegged to social benefits (with the State as the guarantor), not just to earnings and wages. As a result, social policy was transformed, in particular in the case of pensioners into the collateral that was missing in this formula, which would be guaranteed by the state beyond labor income.

The extent to which income (whether in the form of wages or contributory benefits) could be compromised by debt would reach as high as 35% (as of 2015). Conversely, borrowers lose control of their income and also their debt. Repayments are withdrawn automatically from the debtor's wage or social benefit by creditors. This dynamic recalls Maurizio Lazzarato's concept of "the debt economy", according to which, debt proliferation is not only based upon the privatization of social insurance mechanisms and the individualization of social policies, but mainly "the drive to make social protections a function of business" (Lazzarato 2012: 29). This is exactly what happens when the right to a social benefit is captured and transformed into debt, which, in turn, becomes the creditor's property. This kind of individualized creditor tutelage debt management is, in practice, the mortgaging of a right.

According to the Brazilian Central Bank (BCB 2015), in 2014, the distribution of borrowers with personal credit loans reflected a profile in line with the advantages offered by consigned credit: 62% of all loans went to civil servants, 31% to retirees, and only 7.5% involved regular workers from the formal private sector. This segmentation unveils the fact that these three groups of borrowers enjoy different loan conditions and interest rates, depending on the credit risk derived from their income and its origin. As a result, civil servants benefit more from lower interest rates than do formal workers who are charged slightly higher rates. This only reinforces the evidence of the State's direct role as a guarantor in credit risk mitigation.

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<sup>27</sup> The consigned credit for workers regulated by the CLT was instituted by Law 10.820 on December 17th, 2003, during the Lula Administration. Soon after, in September 2004, by way of Law 10.953, which amended the previous law, this right was extended to retirees and pensioners of the INSS. Consequently, the creation of consigned credit favored initially public employees and workers regulated under CLT. The so-called "Personal Loan with Payroll Deductions" rapidly overtook the retail banking sectors across the country for those who held steady jobs that were stable and practically without risk, as well as public service positions. A year later, this practice was opened to pensioners and retirees as well, regulated by the INSS (Social Security System) (Lavinhas and Ferraz 2010).

In another front, between 2003-2007, microcredit<sup>28</sup> was legally regulated in Brazil,<sup>29</sup> 90% of which was underwritten to finance daily consumption (BCB 2011), a trait also highlighted by Dymki (2007). This percentage would fall gradually, beginning in 2013, when it was established in law that 80% of this credit would need to be directed for production purposes.

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

Finally, in 2008, in a systematic attempt to deepen the financial inclusion of beneficiaries of Bolsa Família, the “Projeto de Inclusão Bancária” (PIB) surfaced. As an under-the-radar program, the PIB was envisioned to take new instruments and financial services to a targeted public in order to combat poverty. The Project would first limit itself to the opening of simple accounts via Conta Caixa Fácil (as per the Ministry of Social Development and Caixa Econômica<sup>30</sup> Convention). Its expansion was immediate – in no time, credit cards and other services and products were also developed under the PIB framework.<sup>31</sup> Yet, the adherence of approximately two million families (out of 14 million who were registered as beneficiaries until 2010, according to the Ministry of Social Development) indicates that the prices and conditions stipulated stymied the interest of the most vulnerable groups in the financial markets (BCB 2011). In spite of this, financing for the acquisition of consumer durable goods was still significantly expanded, even to the poorest groups. Actually, when taking consumer loans to buy home appliances, for instance, Bolsa Família recipients are subject to the regular interest rates applied by retailers, which are at around 7% per month (nominal).

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28 Microcredit was initially introduced in Brazil under President Fernando Henrique Cardoso, first in the hands of NGOs, and from 1999 onwards, as a product of the banking system. It is only with President Lula that a federal microcredit program was created, under the rule of the national Monetary Council. See Hermann (2010) for a detailed analysis on distinct modalities of microcredit in Brazil.

29 Law 10.735 of 2003.

30 Public bank.

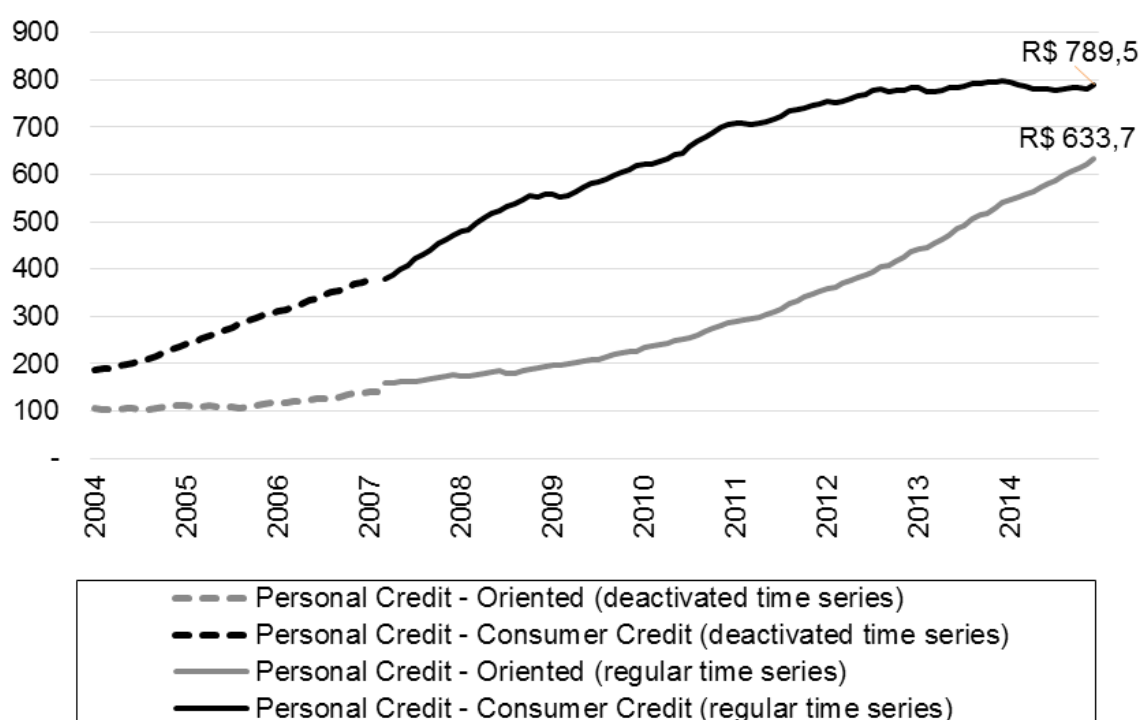
31 In theory, it was predicted that the beneficiaries of Bolsa Família would be granted access to mortgage loans, life insurance, capitalization and savings. While savings accounts were in fact created, with 2.3% of family beneficiaries receiving this service, the rest of the financial inclusion mechanisms failed to reach more than 0.3% of these families by 2010. Ultimately, the adherence to the program would be very low (BCB 2011).

## 4.2 The Credit Market Boom throughout the 2000s

As of December of 2014, personal credit (households) corresponded to 26% of GDP or the equivalent of 48% of total outstanding credit operations (BCB 2015). Figure 4 displays how both modalities of personal credit – consumer credit (open) and oriented credit – have evolved since 2004. Oriented credit includes rural credit, mortgage loans, and microcredit, that is long term loans, while consumer credit focus on regular household spending, including automobiles.

Altogether then, an intensive process of financial inclusion took off across various domains of finance, beyond the “bankarization” of low-income consumers, which gained momentum beginning in 2004 as millions of new and simplified bank accounts<sup>32</sup> were created. Since then, their number rose from 1.9 million to 14 million as of December 2015 (BCB 2015).

**Figure 4: Personal Credit broken down by Consumer Credit and Oriented Credit (R\$ billions as of December 2014).**



Source: Own elaboration based on data from Brazilian Central Bank, time series (BCB 2016). Figures adjusted for inflation using IPCA (IPEADATA 2016), Billions as of December 2014.

Another aspect that should not be dismissed from the analysis is the cost of such financial inclusion – demonstrated in Figure 4, with the evolution of interest rates

<sup>32</sup> Monthly balance limited to R\$ 3,000 or USD 750.

relative to the inflation rate recorded by the IPCA index, also plotted in the graph (IPEADATA 2016). Evidently, the most attractive rates (under consigned credit) have still been very high in real terms, with a spread rarely observed during the expansion of mass consumption in the Post-War years, whether in the United States or in Europe – indicative of a structural feature of the Brazilian economy.

According to Gunnar Trumbull, in France, the nominal interest rates for credit allocated to individuals for consumption was about 18.7 percent in 1960, increasing to 19.2% in 1973, 18.8% in 1986 and falling to 17.6% in 1990 (Trumbull 2013: 116). Similar data obtained by the Federal Reserve Bank indicates that in the United States, interest rates were largely consistent: 12.50% in 1973, 15.5% in 1986 and 15.2% in 1990. It is worth recalling that in the post-war period, under the Fordist regime, consumer credit was strongly regulated and loans were rigorously controlled (Dymski 2007).

A distinctive pattern emerged in Brazil as nominal interest rates (in whatever modality presented) reached consistently high levels and would remain, even in the case of consigned credit, around 30% annually. Non-consigned credit, however, would oscillate in 2015 between 65% and 120%, while revolving credit would reach by the end of 2015 close to 400%, according to the Brazilian Central Bank (BCB 2015).

Trumbull (2013) examined the credit stimulus policies that had been amply disseminated beginning in the 1990s in developed economies. The most revealing insight was that the expansion of credit to boost consumption came to occlude the worsening income inequalities as well. According to the author, during the 2000s, the level of debt among American families reached close to 30% of disposable income<sup>33</sup> (Trumbull 2013: 10), which is considered to be a high percentage. In fact, the level of debt was far higher than what had prevailed in the 1960s during the intense revival of the global economy. During that period, consumer credit comprised a small part of disposable family income (Trumbull 2013: 13).

As shown in Trumbull (2013), the United States served as the exception, as consumer debt levels stood at a largely constant level between 1960-1990, oscillating between 16%-18% of household disposable income. France, Germany and the UK recorded growth tendencies during this period, but in general, remained at a much lower level than what was experienced in the United States. Throughout the 30 years of success of the Fordist regime, the weight of consumer loan payments as a percentage of

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<sup>33</sup> According to Barr (2004), disposable income is calculated by retracting from the total household income the expenses allocated for direct taxes and social contributions such as INSS. It does not take into account, however, the payment of services that should be public and whose supply is nevertheless private.

disposable income (post-taxes and transfers) would increase in France from 2% to 8.5%; from 6% to 12% in the UK and from 3% to 19% in Germany (Trumbull 2013: 13). Despite the upward trends, however, figures for these countries are much lower than those recorded by the BCB between 2007 and 2015, in financial debt as a percentage of disposable household income (post-transfers and post-taxes) rose from 16%, already a high level, in 2005 rapidly to peak at 31% in 2012. By the end of 2014, 28.8% of Brazilian disposable household income was directed to consumer debt repayments to the financial sector (BCB 2016).

Beginning in 1990, two patterns of consumer debt emerged. In the liberal economies (i.e., United States and the UK), the “workfare” logic predominated, wherein the corrosion of disposable income in the repayment of debt would converge to about 23%. In France and Germany, on the other hand, the Bismarckian universal coverage systems prevailed, under which, notwithstanding recent parametric reforms, the level of corrosion is much lower, varying between 10% and 15%, respectively. Trumbull suggests that in the United States, and increasingly in the UK, credit has been embraced as a form of welfare policy, or as “a means to promote economic prosperity without having to fight for higher wages or accept a more redistributive welfare state” (Trumbull 2012: 15), whereas in France, for instance, “credit was seen as primarily detrimental to workers and trade unionists” (Trumbull 2012: 23), and therefore represented a potential social trap.

In Brazil, however, in the aftermath of the social developmentalist turn, the level of consumer debt brings Brazil to a pattern that resembles liberalized countries during the post-1990s era, marked by aggressive financial deregulation. The scope and scale of this process is visible in the growing debt levels of families, for whom debt repayments increased from 18.42% of income in January of 2005 to 48% in 2015 (BCB 2015). Considering only non-mortgage consumer credit, the figures are, respectively, 17.2% in 2005 and 28.8% in 2015. These averages refer to all Brazilian adults (over 18 years old), either borrowers or non-borrowers.

Focusing exclusive on borrowers, the Brazilian Central Bank holds that on average their debt-to-income ratio reached 64% in 2014. This ratio worsens for borrowers whose household income ranks below three times the monthly minimum wage, for whom it climbs to 73% of disposable income (BCB 2015).

There is an important caveat worth noting here. Financialization should not be understood as an expression of a mere tendency of excessive, superfluous, and almost irrational consumption. Elizabeth Warren and Amelia Warren Tyagi in their

classic “The Two Income Trap” (2003) upend the farce of such an overconsumption myth. According to them, the middle class and low-income sectors in the United States did not become over-indebted and insolvent as a result of morally questionable and unrestrained consumption, but rather due to the growing preeminence of debt for access to protection, opportunities and essential consumption goods. Indeed, it is this form of access to goods and services, and not just the magnitude of the process, which informs the financialization dynamic.

## 5. Conclusion

Broad financialization appears to have surfaced in Brazil out of the social developmentalist model, where the incorporation of new social groups into the mass consumption market and into the financial sector took form without a virtuous process of convergence – at once in the social domain and the productive sphere. Put simply, there was a structural move (mass consumption) without a structural shift (convergence). Consumption has been sustained through high-cost borrowing, growing indebtedness levels for households and the collateralization of social benefits, whereas public welfare provision deteriorated and the commodification of healthcare and education widened. This has been the hallmark of the so-called social developmentalist model, in which the role of the State in accelerating the twist to finance sounds unequivocal, particularly by tying social benefits to loans and therefore to “interest-bearing money” (Braga 2013: 90). Notwithstanding, most social developmentalists continue to focus their concern almost exclusively on a single dimension of this turn to financialization: the astronomical cost of the public debt, which directs part of the nation’s wealth into the hands of financial and economic elites, away from the promotion of collective welfare.

The interpretations of the social developmentalist line seem to have a blinkered focus on the multiplier effects of the rising degree of monetization of families, without noting that the way in which the expansion of aggregate demand has fueled growth has broadened the process of commodification and financialization of social policies and strengthened the privativist bent of the social protection system in Brazil.

Further attention should thus be paid to the fact that social developmentalism neglected social policy in its totality which was instead deemed worthy merely for its function in “solving market failures”. This was not an offhand choice, but a fundamental piece of the engine that would strengthen the financialization process, which, in unprecedented ways, came to include those previously excluded. This was possible via the use of social policy as collateral.

Palley (2013) describes with nuance the contours of financialization as it materialized in the United States, where the stagnation of wages and the exacerbation of inequalities entwined.<sup>34</sup> In Brazil however, the appreciation of the minimum wage – a political price as put by Tavares (2015) and of average earnings, would follow a distinct trajectory, totally disconnected from productivity, which in fact was in decline. This is a marker of the advancement of financialization in Brazil, which of course demanded the rise of income levels, which are still very low, in order to give sustainability and stability to the financial innovations in course and the new logic of the finance-led capitalism momentum.

One of the paradoxes of the “hybrid politics” of the social developmentalist era was the democratization of access to financial instruments and as a result of consumption, rather than having advanced true social reform. The deconstitutionalization of the social security system unraveled and exacerbated over time, especially since 2012, with the massive tax-exemptions given to payroll across fifty-six sectors, in an unconditional and unlimited way. The compensation awarded to capital and to the better off, as well as to privatization in the form of tax expenses grew, worsening even further the regressive profile of the tax system.

Robert Shiller’s formula has been, it seems, applied to Brazil. The “democratization” of finance appears finally to have brought “the advantages enjoyed by the clients of Wall Street to the customers of Walmart” (Shiller 2003: 1). Yet from a normative perspective, should we endorse this chimera and the dangers it brings with it?

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<sup>34</sup> These included the over-valued dollar, trade deficits, inflation, manufacturing job losses, asset price (housing and equity) and rising household and corporate indebtedness.

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