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Updating the Center-Periphery Relationship in the Light of the Financialized Capitalism: the case of the Brazilian subordinate financialization

Atualização da Relação Centro-Periferia à Luz do Capitalismo Financeirizado: o caso da financeirização subordinada brasileira

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Abstract: The article aims to show how financialization intensifies the subordination of peripheral economies in relation to the central ones, focusing on Brazil. Financialization is defined as a systemic pattern of wealth, driven by financial liberalization after the collapse of Bretton Woods. The integration of peripheral economies into this hierarchical global market of currencies and financial assets occurs unequally, with peripheral countries attracting speculative capital through high interest rates and deregulation. The article analyzes the process of financialization in Brazil since the 1980s, proposing a periodization that reveals how Brazil's economic structure consolidated a specific type of financialization.

Keywords: Financialization; Center-Periphery; Subordination; Brazil; State.
JEL Classification: B50, F65, P16.

Resumo: O artigo argumenta que a financeirização intensifica a subordinação das economias periféricas em relação às centrais, com foco no caso do Brasil. A financeirização é aqui entendida como um padrão sistêmico de riqueza, impulsionado pela liberalização financeira após o colapso de Bretton Woods. A inserção das economias periféricas nesse mercado global hierarquizado de moedas e ativos financeiros ocorre de forma desigual, com os países periféricos atraindo capital especulativo por meio de altas taxas de juros e desregulamentações. O artigo analisa o processo de financeirização no Brasil desde a década de 1980, propondo uma periodização que revela como a estrutura econômica brasileira consolidou um tipo específico de financeirização.

Palavras-chave: Financeirização; Centro-periferia; Subordinação; Brasil; Estado.
Classificação JEL: B50, F65, P16.

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1. Introduction

The contemporary capitalist system can be analyzed from two potentially interconnected perspectives: the center-periphery relationship, which, despite the constant mutation of its determinants, still reflects the economic and power organization between capitalist countries; and the dynamics of financialization, a phenomenon considered recent within this system, strongly associated with the new pace of capitalist accumulation that emerged at the end of the 20th century.

In order for these two perspectives to be used to analyze peripheral contemporary capitalism, it is necessary to go beyond the static view that defines the relationship between center and periphery as determined only by the international division of labor, the unequal development of technical progress and the adoption of the pattern of consumption of the center by the periphery[1] (Abouchedid; Palludeto, 2016). In other words, it is necessary to understand that, although these determinants still explain contemporary capitalism, they can no longer be used without considering the way in which the international finance sphere is articulated, highlighting its crucial role in defining economic inequalities between global regions.

The change in the international monetary and financial system, inaugurated with the end of the Bretton Woods system, must be taken into account to understand the new configurations of the center-periphery relationship, after all, the financial liberalization, the emergence of the dollar as an international reserve without the need for the gold standard and the explosion of financial innovations reconfigured the dynamics of global accumulation, causing differentiated insertions by countries and, furthermore, overcoming the dispute between states from financial globalization and productive and financial globalization[2].

Considering this, the modernization of the international credit system occurs in an accelerated manner, allowing the capitalists to increase their access to monetary capital and integrating the international economy through the financial sphere. From this movement, we notice an advance of the predominance of financial logic in the decision-making processes of the relevant agents of capitalist economy, manifested, for example, in the systematic increase of participation and the importance of financial assets in their balance sheets. This new manner of managing, representing, and increasing wealth is what Braga et al. (2017) call financialization.

In this sense, it is necessary to highlight that financialization is simply the result of a period of financial liberalization, as some a-historical analyzes of “temporary imbalances”, typical of orthodox and neoliberal economists, claim (Treeck, 2012). In fact, it is not an “imbalance” because it is not an anomaly of capitalism, supposedly composed

[1] For more details, see Rodriguez (1986), on the classical ECLAC contribution, Cardoso and Faletto (1970), as exponents of the theories of dependence, and Marini (2005), on the Marxist theory of dependence.

[2] In this context, the consolidation of the process of weakening of national decision centers and the strengthening of transnational decision centers take place; a movement studied by Furtado in several writings. To access this debate, see the great selection of texts on the subject in Furtado (2006).

of speculative and parasitic activities, but rather something that is, at least, structural (Lapavitsas, 2013). Nor is there anything "temporary" in such a process of financialization because, as Chesnais (2016) rightly pointed out, it did not start with the crisis of 2008, or even after more than fifteen years of "post" crisis.

Therefore, the common place of the extensive heterodox analyses[3] that have been found on the phenomenon may be to see it as something systemic and dynamic in contemporary capitalism (Fine, 2013). In this sense, such a view certainly supplants the traditional dualities between "real" and "nominal" decisions, "real" and "monetary" spheres, "industry" and "finance" (Kregel, 2017), to finally accept that finance and production should be seen as inseparable forms (Chesnais, 2016).

Thus, assuming that financialization is fundamentally characterized by such a systemic and dynamic character, we propose to understand it as a systemic pattern of wealth (Braga, 2000), in other words, as the core expression of capital itself and its development, as will be seen below.

However, despite the growing number of studies that have addressed this issue, those that effectively address the typical specificities of peripheral countries in this process, and especially Brazil, remain scarce, which is why this paper has been written.

In this sense, a more typified analysis of the financialization process in Brazil is not simply a regional one. In fact, it starts from the understanding that the manifestation of finance in the country, and in the peripheral countries in general, brings new theoretical elements and cannot be merely related to the forms that the process manifests in the central economies[4]. On the other hand, since the relationship between center and periphery remains, as it was necessary to study the peripheral insertion and the dilemmas of industrialization in the classical approaches, it is also important to study how this insertion occurs under the regency of a new systemic pattern, which is the raison d'étre of the present effort.

The aim of this paper is to explore the concept of financialization, as a systemic pattern of wealth, based on its manifestation in the Brazilian peripheral economy. To achieve such a goal, a theoretical effort is made to relate the process of financialization to the structural dynamics of the center-periphery relationship. Based on this, the case of the Brazilian economy is highlighted, for which a periodization is proposed, on the grounds of consolidated literature and, in a complementary way, of the analysis of the behavior of the base interest rate, in order to understand how to explain the characteristics of the financialization process of the country and also to reinforce or update its condition as a peripheral economy. We need to understand that the relationship between the center and the periphery predates the emergence of financialization, and that although there has been

[3] It should be noted that these interpretations differ on some points, such as the role of interest-bearing capital and the centrality or otherwise of wage labor. However, it is not the purpose of this paper to explore the implications of these divergences, but to present the common points insofar as they help the reader understand the phenomenon as a systemic pattern of wealth, as well as its characteristics in the Brazilian reality.

[4] For example, Fonseca, Silveira and Hiratuka (2019) highlight the important differences regarding the action of the institutional investors in Brazil, concerning the practices on central economies.

a change in the way the capitalist system works as a whole, this process occurs in a specific way in the peripheral countries and ends up reinforcing and also explaining their process of subordination to the center.

To this end, this paper is divided into three other sections in addition to this introduction and the final considerations. The next section provides the theoretical construct of financialization as a systemic pattern of wealth, emphasizing the transformations of the world economy after the collapse of Bretton Woods. The third section then seeks to link the emergence of the financialization process to the subordinate integration of peripheral economies into the international monetary and financial system. In order to work out the specificities of the process in Brazil, a fourth section seeks to elucidate the process of financialization in the country. To this end, the evolution of this process is presented based on its institutional context and a periodization proposal.

2. Financialization as a Systemic Pattern of Wealth: transformations and concept

Although there is no consensus in the literature on the definition of the concept of financialization, it is important to highlight the classic position of Epstein (2005, p. 3) in which "(...) financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies", understanding as finance the expression of the negotiation of rights over value, such as credit operations, corporate shares, government bonds, mortgages, and derivatives.

More specifically, Braga et al. (2017) understand that financialization is a systemic pattern of wealth that derives from the collapse of the Bretton Woods era, comprising a new stage of capitalism. For the authors, the financialized economy reflects the growth of the fictitious component of capital in the composition of the economy's total assets. As a result, the capitalist economy begins to systematically reflect the mode of operation of fictitious capital, that is, its mechanism of valorization begins to reflect the movement of anticipation of future profitability that defines it. Therefore, it promotes the movement of highly speculative activities, besides demanding markets that are necessarily liberalized and disregulated.

In terms of a systemic pattern, this defines that the set of decisions of the agents is redefined, affecting spending decisions, economic policies, as well as the movement of economic cycles[5]. The end of the Bretton Woods era, in this sense, is analyzed as a milestone of a change in the operation of capitalism itself. Less and less limited by regulations and policies, the flexibility of wealth intensified inter-capitalist competition, accelerated the concentration and centralization of capital, and promoted increasing financial innovations and the increase of financial markets — which could not be done

[5] The high volatility of wealth and the speculative activities that define its mode of operation make it common to have a routine where peaks of high profitability and financial crises are not separated for a long period.

without the creation of a new institutionality consisting of the reformulation of the role of Central Banks and National Treasures and their relationship with institutional investors, banking system and non-financial companies.

The volatility of exchange and interest rates after Bretton Woods has become fertile ground for the creation of new markets, through hedging, derivatives creation and, of course, speculative movements around arbitrage operations. As a consequence of this financial expansion, mechanisms of interaction among agents were further developed, fostering an environment in which the entirety of the capitalist economy – particularly companies, households, and the state – became increasingly involved, not only expanding markets but also dispersing the influence of financial assets. In general, fictitious capital takes control of capitalist operations as a whole, and financial logic dominates these agents' decisions (Braga et al., 2017).

All this change must be seen as radical when seeking to understand the relationship between the role of the State and financialization historically. Based on Kotz (2015), it is possible to build the following panorama with the US economy as a reference. After the Crash of '29, banking activities were strictly regulated, in the intention of "(…) ensuring the stability of banks, preventing banking failures and promoting what was seen as the appropriate productive role of the financial sector, discouraging speculative activity" (Kotz, 2015, p. 16). The system was so regulated that there were specific interest rates and funding restrictions on financing for certain activities, and the banking market was highly segmented. Most notably, the Glass-Steagall Act of 1933 forced financial institutions to engage in only one type of activity: commercial, savings, insurance, or investment banking. According to Kotz (2015), this regulation had two main results: the restriction of profitable activities of the financial sector and a very low number of bank bankruptcies until 1973.

Starting in the 1970s, the scenario in the US changes with the entry of mutual funds offering higher interest rates than banks as inflation pressed the established interest ceiling. At that time, neoliberal ideas were gaining ground, criticizing the regulated position and calling for the liberalization of the financial and banking market. In 1980, the first banking deregulation bill was signed into law, followed by other important measures until 1999, when the Financial Services Modernization Act was signed, largely repealing the Glass-Steagall Act and allowing the creation of financial conglomerates.

The aforementioned changes gradually enabled the financial sector to expand its markets, activities, and profits, as well as to break free from the relationship of subservience it occupied in relation to the accumulation of non-financial capital. Taken together, the dynamics of a financialized economy have allowed a significant increase in processes such as trading ownership in over-the-counter markets, securitization (transforming non-financial assets into negotiable securities), derivatives, financial activities in non-financial corporations and formation of large financial conglomerates, as well as an increase in the share of the distribution of social surplus going to finance (Rude, 2009).

Although the financial system still fulfills the traditional activities of collecting and reallocating idle capital, the capacity to allocate resources in increasingly profitable but risky activities has required the construction of an institutional environment capable of managing risk, making transactions safer and also creating new markets out of this concern. As a consequence, the financial sector began to control the mechanisms of credit issuance (closely linked to the asset market), and then the endogenous issuance of money, thus controlling the creation of new wealth (Duménil; Lévy, 2001).

According to Rude (2009), given the evolution of the financial markets, this environment, which is called financialization, could increasingly be explained by the competition between capitals to benefit from the protective mechanisms created to protect the system from possible financial contingencies that would disrupt the circulation of capital. In other words, the dynamics of financial accumulation and the liberalization of markets have allowed the existence of a complex valuation mechanism based on the capitalization of expected future income.

The companies' profitability has become more dependent on the financial market, which has changed their internal organization. The fact that industries are part of a conglomerate of companies with a wide variety of shareholders has led them to base their profitability on the valuation of their shares, which are traded in parallel on the financial market. This process has had a direct impact on the structure of industries[6], as concerns about the long-term vision and productive restructuring of companies have been swept aside, making their investment and corporate structure dependent on the performance of their shares on the financial market, and no longer on the direct return that these activities provide (Fine, 2010, p. 19). This doesn't mean that firms didn't maximize profits before, but that they can now do so even at the cost of eliminating productive capacity and employment[7].

Understanding financialization from a systemic perspective, it is noted that the transformations were not summarized to static analyzes of accumulation processes, usually associated with disputes between nation states. Firstly, there is a change in the role of the State, where it is not a major agent, on the contrary, but changes its performance, becoming central not in determining the pace of accumulation, but in stabilizing, regulating and guaranteeing financial transactions. Financialization and, consequently, the growth of the international capital movement contribute to the loss of autonomy of national decision-making centers. From this perspective, there is an increase in the importance of finance to determine the agent's choice of allocation of wealth, from non-financial corporations to family centers (Kaltenbrunner; Painceira, 2018).

3. Financialization in Peripheral Countries

[6] For a more consistent discussion of the changes in non-financial corporations after financialization, see Crotty (2002).

[7] Duménil and Lévy (2001) have shown how the profit rate of financial and non-financial corporations had very different trajectories between the 1960s and the 1990s, with financial corporations increasing at a dizzying pace after the implementation of neoliberal reforms and the consolidation of the financialization process, in contrast to non-financial companies.

Financialization emerges in a world economy that was established in a series of economic inequalities among nations, which were expressed, initially and more evidently, through unequal relations of production between central and peripheral countries. Thus, financialization is imposed globally as a new systemic pattern of wealth of the capitalist system, while at the same time it is a new determinant of the relationship between the center and the periphery (Lima, 2013). Therefore, financialization can only be understood on a more concrete level, taking into account each nation's specific characteristics, such as their social relations and the fundamental differences in the insertion of center and periphery countries in the international financial system.

The collapse of the Bretton Woods system was, at the same time, the historic milestone of the consolidation of financialization and also the resumption of the United States as a hegemonic power (Tavares, 2017). The new international monetary system, characterized by financial deregulation and the end of the gold standard, allowed the US to gain unprecedented economic policy autonomy, and could incur cumulative current deficits and conduct currency devaluations without fearing a speculative race against the dollar (Serrano, 2002).

The overcoming of the gold standard made it possible for the power of the unconvertible dollar to meet the power of rising finances. American public bonds have been consolidated as the support center of the international financial system in this new historical context. On the one hand, the worldwide acceptability of its public bonds allows the US to be indebted to the rest of the world in a currency that they issue themselves, providing a high degree of freedom in the execution of economic policies. At the same time, the security that is attributed to American public bonds illustrates its basic role in sustaining financialization. It is the FED's broad capacity to handle these securities that allows the dollar to maintain itself as a flexible, financial, and fiduciary currency[8].

The asymmetry of the international financial system, characteristic of financialization, is structured on the basis of a monetary and debt hierarchy, with the dollar and US government bonds at the top (Vasudevan, 2017). While at the top of the hierarchy are the dollar and US government bonds, at the bottom are the weak currencies of the peripheral countries (Conti; Prates; Plihon, 2014), which, anchored in their government bonds, are only able to fulfill their functions at the national level, without the capacity to maintain their functions globally[9]. Thus, the global hierarchy of currencies and debts, which is the basis of financialization, has restructured the relations of dependence and subordination of the periphery to the center of the system.

With the United States as the main hub, financialization has been internalized in the peripheral countries as a result of the liberalizing reforms imposed on them and on the rest

[8] As a flexible currency as it stabilizes the fluidity of international market transactions; as a financial currency, in the sense of naming financial contracts; and as a fiduciary currency, meaning that there is no longer a need for gold to exist as a necessary reserve of value (Prates, 2005).

[9] In addition to the three classical functions of money (medium of exchange, unit of account, and store of value), Cohen (1971; 1998) and Prates and Conti (2018), among others, discuss the need to analyze the capacity to perform these functions in public and private ways at the national and international levels.

of the world. While the financial systems of the central countries already had a robust level of development in the 1990s, in the peripheral countries they were underdeveloped when they complied with the liberalizing reforms imposed by international bodies such as the IMF and the World Bank (Alves, 2017). Through financial liberalization a hierarchical world market for currencies and financial assets was structured, and the subordinate position of the peripheral countries in this hierarchy shaped their financialization process (Bortz; Kaltenbrunner, 2018).

Thus, the financialization of peripheral countries is closely related to their insertion into the global market, so that a number of authors have emphasized the international aspects of financialization as fundamental aspects of its subordinate character (Bortz; Kaltenbrunner, 2018; Kaltenbrunner; Karacimen, 2016). Subordination can be understood as the need that capital imposes on peripheral countries to adapt to global dynamics that are asymmetrically determined by the accumulation of capital in central countries.

Therefore, financialization is not only characterized by domestic differentiation in peripheral countries, but such differentiation is closely linked to changes in international financial markets (Bortz; Kaltenbrunner, 2018). Similar to what happened in the central countries, there has been an increase in foreign assets and liabilities and in capital inflows and outflows from these countries, in line with the expansion of global finance (Bonizzi; Kaltenbrunner; Powell, 2020). In this new scenario, new actors have also emerged and have gained importance as investors in peripheral countries, such as institutional investors.

Within this new historical context, the monetary hierarchy means that weak currency countries are always vulnerable in two dimensions: because financial flows are determined in the central countries (Rey, 2013), which makes them vulnerable to business cycles; and, from the first dimension, because these countries have a small share in the international asset portfolio, making them unable to avoid a capital flight that is not marginal to their economy (Abouchedid; Palludeto, 2016). Therefore, capital flows to emerging economies take on a highly speculative character, based not only on investment income but also on capital gains, which contributes to increased instability in these economies, reflected in the volatility of assets, especially in the trajectory of the exchange rate (Kaltenbrunner; Painceira, 2015).

Through the interaction of domestic actors with international financial markets, the international aspects of financialization and the subordinate character it acquires are internalized in domestic economies. Non-financial corporations, banks, and households have their actions shaped by their international financial insertion and/or by the world currency. In the case of non-financial corporations, they become active agents in international financial markets, resulting, for example, in the internationalization of their balance sheets (Bonizzi; Kaltenbrunner; Powell, 2020) and their constant involvement in speculative operations such as carry trades (Farhi; Borghi, 2009).

The banking system, on the other hand, is often characterized by a strong presence of foreign banks. At the same time, national banks have strengthened their links with international financial markets and the global currency, both through their internationalization abroad and through the intermediary role they play between international investors and the domestic economy. In addition, the growing link between the domestic banking system and the international financial system has been associated with the practice of speculative operations by banks, again highlighting the carry trade (Powell, 2013).

In the context of households, the new scenario contributed to increased indebtedness, with some cases heavily denominated in foreign currency (Gabor, 2011). Additionally, wealthier households sought to preserve their wealth in global currencies and assets denominated in them (Powell, 2013). At the same time, households increasingly relied on financial markets to access essential goods and services, as the state withdrew its provision of these necessities (Lavinas; Araújo; Bruno, 2017).

In an environment of financial liberalization, the position of the peripheral countries at the bottom of the monetary and debt hierarchy makes the instability of the trajectory of their macroeconomic prices and assets one of the main expressions of their external vulnerability. While the dollar consolidates itself on the world market as a stable currency and US government bonds as a safe haven of the global monetary and financial system, in the peripheral countries capital flows are directed towards short-term speculative gains, further reinforcing the unstable trajectory of domestic prices (Bortz; Kaltenbrunner, 2018).

Given these peculiarities of the peripheral countries' integration into the international financial market, their financial subordination is manifested in the limited autonomy they have in implementing their economic policies, which are subject to the relationship between the domestic currency and assets and the international financial cycle. The inability of peripheral currencies to represent abstract wealth internationally means that their occasional attraction is the high profitability or capital gains associated with them. For this reason, interest rates and exchange rates are adjusted to meet these needs, although such policies are insufficient to counteract the dynamics of global flows, which are mainly determined by factors exogenous to these countries (Prates, 2005).

The integration of peripheral countries into financialization, by combining financial liberalization with their unfavorable position in the monetary and financial hierarchy, compels economic policies to attempt to counteract these weaknesses, while simultaneously ending up reproducing them. According to Abouchedid and Palludeto (2016), the limitations of economic policies in a context characterized by financial globalization go beyond monetary, fiscal and exchange rate policies, but also affect the implementation of policies aimed at a development strategy, limiting, for example, the possibilities of implementing industrial and technological development policies. The subordinate integration of peripheral countries into financialization prevents a targeted action aimed at overcoming their peripheral condition. On the contrary, economic policy is driven to remain within the narrow confines that allow for the reproduction of the center-periphery relationship, to the detriment of the very countries implementing these policies.

In financialization, the monetary and debt hierarchy is a fundamental channel through which the heterogeneity of development between nations is reproduced and deepened. In a context marked by the financial liberalization demanded by financialization, the monetary and debt hierarchy becomes a powerful instrument for keeping the peripheral countries subordinate to the central ones.

4. Financialization in Brazil: Institutionalization and Periodization

4.1. A brief overview of the changes in Brazilian economic institutions

During the 1980s and 1990s, Latin American economies, especially Argentina, Brazil, and Mexico, went through a harsh economic context marked by high external debt, very low economic growth, and high inflation. This scenario of severe external restrictions required strong support from institutions such as the International Monetary Fund and the World Bank. However, this support came with stringent demands for changes in the economic structure and the management of economic policies.

These changes materialized as guidelines or instruction manuals in what became known as the set of ten recommendations of the Washington Consensus. This document, a landmark of the neoliberal position, indicated that the Latin American adjustment had to include policies such as: a fiscal reform led by public spending efficiency, delegating to the State only the allocation of resources to sensitive areas where no economically justifiable return exists; financial liberalization; trade openness; capital account liberalization; deregulations; adjustment of exchange rate policies to the goals of global trade liberalization; and privatizations (Williamson, 1992).

Despite the correlation between a crisis situation and the implementation of these changes, it is possible to point out, based on Gimenez (2007), that the formulation and consolidation of this series of policies was not aimed at solving the problems of economic growth or the solvency difficulties of national states. Instead, the goal was to adapt the economies to the new functioning of the international financial order. According to the author (2007), in Brazil, the implementation of such policies integrated the international financial market into the national accumulation circuits, while simultaneously opening the door to a powerful force driving structural reforms (financial and trade liberalization, privatizations, state apparatus reforms, etc.), consolidating the hegemony of orthodoxy in economic policy management.

It is important to highlight that this hegemony primarily focused on implementing policies aimed at resolving the inflation problem, as monetary stabilization became central to ensuring the profitability of assets traded in national currency. The main expression of this process, as could be expected, was the success of a stabilization plan like the Plano Real (a Brazilian economic stabilization plan implemented in 1994 to combat hyperinflation), with stabilization via the exchange rate anchor.

According to Carneiro (2002), this plan was outdated for the context in which it was applied, since it was only possible due to high international liquidity and the ability of the Brazilian State to attract the necessary flow of dollars for the country's financing needs, which was heavily linked to the payment of high interest rates. Thus, it is worth highlighting two movements: one external, corresponding to a situation of over-liquidity in the international financial market; and one internal, where the aforementioned transformations provided guarantees of remuneration and security for incoming foreign capital.

In this regard, Brazil saw a movement towards promoting the profitability and liquidity of public debt securities, a policy of exchange rate appreciation and higher interest rates. Just as important, the process of trade openness could be observed both from the point of view of the direct or partial privatization of Brazilian public companies, the sale of state assets, and the incorporation by foreign capital of the depreciated shares of national banks and private companies that collapsed throughout this process. In other words, the process of financial liberalization depended both on the changes in the country's economic and institutional structure and on aggressive processes to create spaces for the entry and subsequent appreciation of international financial capital (Gimenez, 2007).

4.2. Brazilian-style Financialization: a periodization proposal

After the long series of deregulations that took place in the Brazilian economy, it became clearer that a financially-driven growth regime was being established in the country[10].

The analyses of Bruno et al. (2011) and Lavinas et al. (2019) corroborate the fact that, until the mid-1970s, a profit-led growth regime prevailed in the country, according to which investments are led by the growth of the profit rate - there was even a positive correlation between the rate of accumulation of fixed capital and the macroeconomic profit rate, starting in the early 1960s until the crisis of the growth model that became known as the “economic miracle”. Until then, the Brazilian financial system was not developed enough for banks and financial institutions to take advantage of inflationary income, which only happened in the 1980s.

From 1994, the positive correlation between the two rates ceased and two other phases emerged. A second phase in which the macroeconomic profit rate continued to grow steadily, unlike the rate of accumulation of productive fixed capital, which remained stagnant until 2003; when a third phase began in which this rate began to grow at a higher rate than the former (an average of 7.8% per year between 2004 and 2008), while the profit rate had already been growing at a constant rate, an average of 1.8% per year, since 1999 (Bruno et al., 2011).

In addition, other factors help to understand the background against which the process of financialization of the Brazilian economy is taking place. As Becker et al. (2010) and Bruno et al. (2011) point out, between 1975 and 2004 there was a significant and continuous decline in the share of gross profit that was reinvested in Gross Fixed Capital Formation (GFCF), as well as a positive correlation between the growth of the ratio

[10] However, Lavinas et al. (2019) warn about the fact that the process of financialization of the Brazilian economy began prematurely. For example, since the 1980s, Braga (2000) had already warned about the growing affiliation of pensions to capitalization schemes, a movement which, however, as will be seen below, would only become more latent and characteristic of the financialization process in the country throughout the 2000s.

of total non-monetary financial assets to the total stock of productive fixed capital and the growth of the non-invested share of the same gross profit. From 2004 to 2008, all these indicators reversed their trajectories: the share of profits going to GFCF increased again, and the last mentioned correlation was reversed, indicating that investment decisions were guided by the real profitability of financial markets and not by strictly productive characteristics and criteria.

Understanding the process of financialization of the Brazilian economy requires an understanding of what Belluzzo and Almeida (2002) call the process of financialization of prices. In summary, this process can be understood as the generalization of the reference to the expected nominal short-term interest rate, which becomes the criterion for price adjustments of goods; the basis for defining the return on idle wealth in quasi-money; and the parameter for defining the prices that compensate for the difference in risk, protection and liquidity when using assets destined for export in the domestic market.

There are two immediate consequences of this new system. The first one is that public debt became the basis of bank income, functioning as a currency backing for the indexed currency and the basis for arbitration between both currencies. The second is that the creation of institutional mechanisms to defend incomes, as well as legislation and advances in the banking system in general, have allowed the Brazilian society to adapt to the fact that higher levels of inflation were important for maintaining the value of private assets.

With sharply accelerating inflation, the risk of devaluation increases if assets leave the financial circuit and enter the real economy. Therefore, price formation became conditioned on updating the values of these assets as a solution to avoid their realization. In this type of economic organization, inflation became a source of extraordinary profits, which drove society to align its interests around this mechanism. In Brazil, the denial of currency was necessary to affirm the value of wealth, profit and even labor income (Belluzzo; Almeida, 2002).

Specifically, the financialization of the Brazilian economy was initially based on inflationary gains derived from institutional monetary correction mechanisms and the indexation of prices and wages.

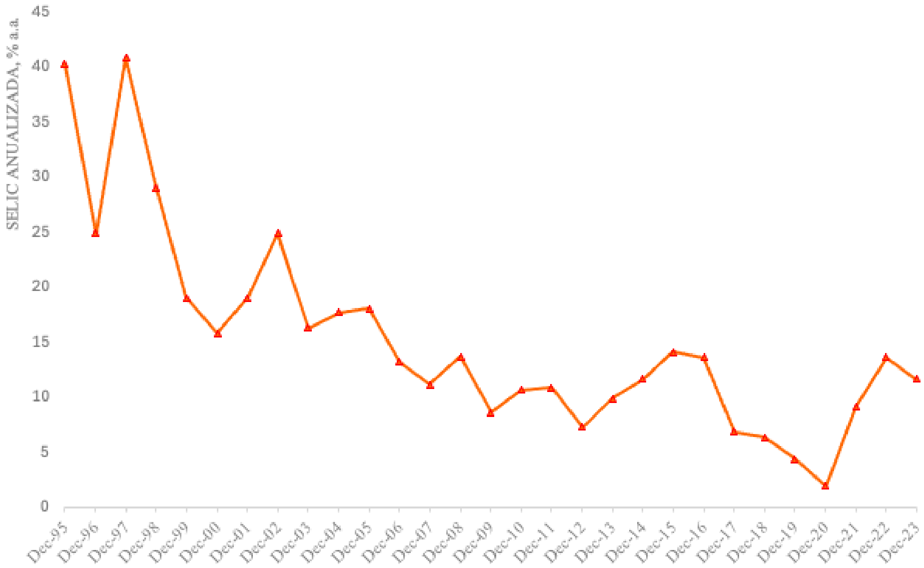
According to Bruno et al. (2011), Lavinas et al. (2019) and Paulani (2009), this meant that financialization presupposed a specific institutional environment — in this case, a dual one (given by the coexistence of a currency issued by the State, exercising the functions of unit of account and means of exchange, and an indexed financial currency backed by government bonds, the latter exercising the function of store of value) and inflation.

Lavinas et al. (2019) add that the same period can be understood as an elitist phase of financialization in Brazil, since it mainly benefited the upper bourgeoisie and the top of the middle class. In other words, this process of financialization had the banking and financial system as its flagship, providing financial gains mainly through inflationary mechanisms, resulting in an extreme concentration of the stock of real and financial wealth in the highest income brackets.

After this period, following the stabilization of prices after the Plano Real, there was a move by the banks and the national financial system to replace inflationary gains with interest income, the unabated growth of public debt as a percentage of GDP, and financial assets (basically fixed-income securities linked to public debt at extremely high interest rates).

From now on, according to Figure 1, it is essential to keep the rate of return on financial capital, which reproduces itself supported by public debt, high — even if the relative level of the rate will fall as the economy stabilizes, the average SELIC for the period under consideration, 1995–2023, is 15.3% per year.

Figure 1: Brazilian policy rate (SELIC) 1995–2023



Source: Central Bank of Brazil, Time Series Management System (BCB, SGS).

Therefore, between 1995 and 2006, the income from fixed-income securities and derivatives accounted for 50% of the operating income of the banking and financial system, while credit accounted for less than 20%. In 2009, 84% of the sector's operating income came from securities income and only 10% from consumer and investment lending (Bruno et al., 2011; Paulani, 2009). Furthermore, Lavinas et al. (2019) show that, especially after 2005, there is a clear correlation between the peaks of the SELIC rate and the growth of non-monetary financial assets, while between 1991 and 2014 the stock of non-monetary financial assets grew elevenfold, in contrast to the mere 1.6-fold increase in the stock of productive fixed capital.

This second phase of periodization, post-Plano Real, is what characterizes public debt as the main axis of rentier-patrimonial accumulation in Brazil. In this second phase, which marks the peak of the financialization of the domestic economy, the ratio of net domestic public debt to GDP rose from 17.4% in 1991 to 52% in 2009. The ratio of the stock of financial assets to the stock of productive assets rose from 15% in 1992 to 75% in 2008 (Bruno et al., 2011; Paulani, 2009).

However, the main problem posed by this pattern of financialization, which revolves around public debt, is that, according to Mollo (2013), most of the debt resources are not used to stimulate production, but to pay the interest itself, so that the primary surpluses obtained in the period were insufficient to cover the interest.

This is one of the forms in which the peripheral structural condition explains, and is also reinforced, by the particularity of the financialization process in the case of the Brazilian economy.

The most direct consequence of financialization, which was largely based on interest income, was the overvaluation of the exchange rate, which in turn, in addition to stimulating imports and discouraging exports — thus, also damaging the generation of domestic employment and income — also contributed to the deterioration of the country's current account balance. Therefore, in the first years of the 2000s, the share of industrial exports systematically decreased, and even more so for high, medium-low and medium-high technology, while industrial imports of medium-low and medium-high technology increased, especially since 2004. Pari passu, exports based solely on raw materials gradually grew.

This led to a sustained decline in the trade balance of Brazilian industry starting in 2005. It’s also worth noting that the market structure of exported products, mainly commodities, tends to be more competitive, while imported products, often technology-intensive inputs, come from more concentrated markets. This difference has worsened the terms of trade by limiting Brazil’s ability to control the prices of its exports and imports, reflecting the imbalance between core and peripheral economies.

According to Lavinas et al. (2019), from then on, Brazil’s financialization became widespread since it was no longer limited mainly to the banking and financial sector, but also to the domestic public debt, and to the private debt of families and non-financial companies.This is expressed precisely in the undermining of the role of social policy in the country, through easier access to consumer credit, student loans, health insurance, social security schemes based on financial funds, and so on.

It turns out that social policies are being used as collateral for the expansion of financial wealth, which can be seen[11], between 2004–2014, both in: (I) the negative relationship between the advance of financialization and public social spending — an expression of the growing privatization of the provision of public goods and services — while the net assets of pension funds are growing; and (II) the positive response of consumer credit to positive shocks to the minimum wage, social assistance for the elderly

[11] The relationships mentioned in (I) and (II) are analyses of econometric models that use the accumulated SELIC rate as a proxy for financialization, as an expression of financialization that still relies on government debt, and the stock of non-monetary financial assets (M4–M1) as an expression of financialization that also relies on private debt. For further information, see Lavinas et al. (2019).

and disabled, and pensions — all expressions of the income transfer policies implemented in the early years of the country's Workers' Party (Partido dos Trabalhadores - PT) government — as the latter serve as the necessary collateral for an abrupt expansion of credit, as seen between 2000 and 2014 (Lavinas et al., 2019).

In this regard, despite the social contract established by the 1988 Constitution in Brazil, the processes of financial deregulation and trade liberalization—both marked by the advance of the neoliberal wave of the 1990s—play an absolutely fundamental role. These processes introduce controls and conditionalities to the country's social welfare policies, replacing universal policies with residual programs and fostering a generalized preference for monetary transfers over the provision of services by the state. This is yet another way in which Brazil's structural peripheral condition explains—and is also reinforced by—the specific characteristics of its financialization process.

Undeniable examples of this include the expansion of health insurance providers — reflected both in the growth of private insurers and the corresponding tax incentives — and the rise of educational conglomerates in Brazil. Regarding the latter, Lavinas et al. (2019) argue that the policy of increasing access to universities during the PT administration came at the cost of significant household indebtedness and the enrichment of corporations, facilitated by state-backed programs such as the Higher Education Student Financing Fund (Fundo de Financiamento ao Estudante do Ensino Superior - FIES). he rapid and exponential growth of student loans over a short period created fertile ground for the emergence of massive conglomerates in the education sector, such as Cogna Educação (formerly Kroton) and Estácio Participações, which saw their market valuations soar during this period[12].

Additionally, there is also the process of banking sector expansion of the Brazilian population and the respective expansion of payroll loans, both of which stem from the same context of the expansion of income transfer policies and are also expressions of the distortion of social policy that has come to serve as collateral for financialization in the country.

It is precisely the beneficiaries of social programs like "Bolsa Família" (a Brazilian social welfare program established in 2003 that provides financial assistance to low-income families) who have become targets for insurance policies and easier access to retail credit—especially payroll-deductible loans (crédito consignado). Originally aimed at retirees, pensioners, and formal workers, these loans have allowed the financial sector to extend its reach to a clientele whose incomes are guaranteed by the state, effectively minimizing the risks for banks. As a result, banks are now able to tap into less affluent segments of the economy, so that "the collateralization of social policy finally seems to be overcoming the barriers (erected by structural heterogeneity) to the definitive incorporation of previously excluded sectors of society into the market" (Lavinas et al., 2019, p. 16).

However, in a slightly more recent period, since 2015, in the context of a deep and unprecedented deterioration of social policies in the country, a drastic worsening of

[12] For an analysis of the process of financialization in Brazilian private higher education, see Bressan (2020).

economic and social indicators, and austerity economic policies that cut the budget for programs such as Bolsa Família, the self-valorization of capital was forced to look for other alternative paths to take in Brazil.

In the same context, as can be seen in Figure 1, the new monetary policy, based on historic reductions in the base rate, signaled that the appreciation of financial assets, which remained strong during the period, temporarily replaced a pattern of financialization based on the SELIC rate with other forces, such as credit and, above all, investment in shares. This is because, while the rate hit an all-time low of 1.90% between August 2020 and March 2021, the Ibovespa reached a record 100,000 points in June 2019. This trading volume remained at this level throughout 2019, suffering a slight drop in the first months of the pandemic in the country, in 2020, but soon returning to the record mark of 100,000 points from July of that same year (Lavinas et al., 2022a; B3; BCB).

However, it is important to emphasize that the pattern of financialization in the country was never interrupted or underwent a consistent change in its trajectory. The period between the coup d'état in 2016 and around the beginning of the pandemic in 2020 may have signaled a brief shift toward the capital market, but not because it became favorable, but because it was the State's debt that temporarily proved unprofitable for financial capital. As Lavinas et al. (2022a) point out, the consistently high interest rate in Brazil meant that government bonds were always much more profitable — and safer — than other bonds. Another clear proof of this is that as soon as the state re-entered the scene with the “Auxílio Emergencial” (a Brazilian government financial assistance program launched in 2020 to support low-income individuals and families affected by the economic impact of the COVID-19 pandemic) in 2020, the symbiotic relationship of financialization in Brazil once again relied on social policies and, ultimately, on the state’s indebtedness.

Once again undermining the orthodox austerity of the minimal state, the Covid-19 pandemic that struck the world also prompted entire states to commit to actions aimed at increasing the liquidity of economies, promoting massive credit flows. In Brazil, Auxílio Emergencial was a cash transfer program set up by the federal government in April 2020 and which, until December 2022, between its different phases, ranged from R$300 to R$1,200.

Lavinas et al. (2022b) found, however, that the level of household debt did not decrease despite the record amount allocated to the payment of the Auxílio Emergencial, reaching a peak of 58.5% of average monthly income. This is because it was precisely the families benefiting from the aid that accounted for more than half of the loans granted in the second half of 2020. This shows that the transfer of income promoted by the Brazilian State, in this case, did not succeed in breaking the cycle of indebtedness of low-income families, but, on the contrary, by guaranteeing a certain flow of income, the Auxílio Emergencial enabled the start of a new cycle of indebtedness, partly explaining why Brazilian banks were able to break new profit records in the middle of a pandemic recession.

Conclusion

The challenges of interpreting financialization in the periphery lie in its condition of subordinated integration, externally shaped by dependence on international financial flows, and internally shaped by the financialized environment being built in larger countries like Brazil, which, however, respond exactly to a dominant financial dynamic.

The contribution of this work lies in an analysis of financialization from the center-periphery relationship, understanding this process not as periodic, but as systemic. In this way, it is possible to associate the pattern of economic integration in economies like Brazil's with the structural inability to overcome the constraints of an accumulation pattern organized to serve the interests of financial wealth.

Although integrated into the international financial system, it can be argued that the Brazilian economy, as a peripheral economy, differs significantly from the capital accumulation processes of financial capital observed in central economies in several factors. These include: the political conditions that support the country's greater or lesser autonomy in this process; the ownership structure of financial assets; the size, relevance, and scope of capital markets; and, among many other factors, the basis on which such a process is predominantly sustained and advanced (in the case of the periphery, on interest-bearing capital); and, at the limit, the role of public debt and the State itself.

The fact that rentier and asset accumulation is strongly supported by the income it obtains from the indebtedness of the Brazilian state has the consequence of limiting its autonomy in determining its macroeconomic policies. For example, regarding fiscal policy, there is the imposition of a permanent balance of public accounts and intense austerity, which limits the State's investment capacity. In monetary policy, on the other hand, it is crucial to maintain a level of interest rates that avoids the so-called "capital flight", which ultimately results in a limited capacity to create credit and finance the development of the domestic economy.

As we have seen, financialization in Brazil can be understood in four different historical periods. The first, roughly between the early 1980s and 1993, was based on inflationary gains derived from institutional mechanisms of monetary correction and indexation of prices and wages, which benefited above all the country's banking and financial oligarchy. The second, between the post-Plano Real period and around the beginning of the 2000s, was based mainly on the income generated by the State's debt, and from then on it became the main axis of the elite's rentier and asset accumulation in Brazil.

The third period, from mid-2004 until at least the beginning of the coup that began in December 2015, was based on the distortion of social policies, mainly through the expansion of credit secured by the State and the advance of the so-called "niche markets" of private initiative over the provision of public goods and services. Finally, the fourth and most recent period, which began with a temporary turn to the capital market — solely due to the deterioration of social policies and of the State's role — with the outbreak of the Covid-19 pandemic and the consequent temporary softening of austerity, definitely ends up once again in symbiosis around the State, thus marking the most characteristic pattern of the country`s financialization.

This panorama reveals a consistent deepening of the financialization process in Brazil, as well as the formation of an institutional framework capable of promoting it. The country's peripheral position also determines the timing of this process, which depends on international liquidity and the ability to ensure financial income. The consequence for the economy is a subordinate integration into international financial markets, as it eliminates the state as an autonomous economic agent and promotes an accumulation model focused on the valuation of the financial sphere. However, the country lacks the capacity to retain the capital it attracts, due to the declining strength of the Brazilian capital market and, more importantly, its inability to compete with the assets and currencies of central economies in the event of capital flight.

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