



Enhancing Knowledge for Renewed Policies against Poverty



Working Paper n° 52

## The Financialization of Social Policy: Insights from the Brazilian case

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This project is funded by the European Union under the 7th Research Framework Programme (theme SSH) Grant agreement nr 290752. The views expressed in this press release do not necessarily reflect the views of the European Commission.



# The Financialization of Social Policy:

## Insights from the Brazilian case

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### Abstract:

The 2000s marked a turning point in Brazil's social policy, the institutionalization of which had been profoundly altered by the creation of the Social Security System in 1988. Conditional cash transfer programs as an anti-poverty mechanism significantly extended their coverage, as did social insurance benefits. Meanwhile, the third leg of the Social Security tripod, namely the Unified Health System (SUS), still suffers from underfinancing that limits its effectiveness, aggravating Brazil's contradiction of having a public, free, and universal healthcare system that is unable to meet demand, while providing insufficient and over-targeted care. In the midst of this dynamic, social policy has served to consolidate the *social-developmental* model that consists of promoting the transition to a mass consumer society through growing access to the financial system. The novelty of the social-developmental model was that it applied the logic of financialization throughout the social protection system, through credit market access, expansion of private health insurance, private student loans, etc. Brazil is thus witnessing a process of accelerated financialization that also reaches the social protection system to overcome the "structural heterogeneity" barrier, which had hindered the expansion of the market society in Latin America. This study aims to analyze how this process unfolded, and how it inverts the logic of social policy: rather than protecting from risks and uncertainty, it increases people's vulnerability and commodifies various dimensions of social life.

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This research is part of the NOPOOR project, which is funded by the European Union under the 7<sup>th</sup> Research Framework programme (theme SSH), Grant agreement nr 290752

## **1. Introduction**

The 21<sup>st</sup> century finally appears to have enthroned an unprecedented link in Latin America between economic policy and social policy, ushering in mass consumer societies. This phenomenon is all the more relevant considering that one of the obstacles to Latin America's economic and social development, according to seminal structuralist thinking (Prebisch, 1949; Furtado, 1972; Pinto, 1970), lay in the lack of a vibrant domestic market, which would lead to increased industrial productivity through import substitution. Such a process was expected to result in rising average wages, spawning a virtuous and permanent cycle of expansion in production and demand, backed by a dynamic of innovation, which in turn would constantly improve a mass society's consumption standards.

The path found in the transition to a mass consumer society suggests that a shortcut prevailed, rather than a classical trajectory, as signaled by the Brazilian case. In fact, Latin America – and Brazil in particular – has been acknowledged for its success in incorporating into the consumer market, in less than a decade, tens of millions of citizens, an extraordinary feat given the continent's historical legacy (Lavinás & Simões, 2015). It is thus clear that the classical trajectory failed to prevail due to industry's mediocre performance (Bertola & Ocampo, 2012), lacking innovation and bogged down by the encroachment of extractivism and agroindustrial production, expressed in the dynamic of re-primarization of the continent's economies.

As for the Brazilian case, the object of this article, various factors have contributed to the elimination of structural barriers to expansion of the domestic market. To cite a few, we highlight the bonanza associated with the sharp hike in international commodity prices that led to currency exchange overvaluation; intensification of the globalization process, with new players like China inundating the international market with salary goods and durable goods at highly competitive (and falling) prices; and the emergence of a center-left coalition leading the federal executive branch, committed to promoting “social inclusion” through a new linkage between economic policy and social policy. It was precisely this engineering that allowed compensating for falling productivity, especially in the manufacturing industry, with the expansion of mass consumption via social policies focused more on incorporation into the market than on equalizing opportunities or eliminating the profound asymmetries feeding Brazil's persistent structural heterogeneity. The transition to mass consumption thus occurred without solving structural bottlenecks.

The noteworthy progression of consumer credit linked to certain social benefits in the last decade appears at the center of the so-called social-developmental strategy (Bastos, 2012), the most positive balance of which has been to virtually universalize access to certain durable consumer goods all along the income distribution curve, thereby helping fuel domestic demand and making families' consumption the motor force for the country's recent economic growth.

We contend that the other side of the coin is a process of heavy indebtedness and growing vulnerability of low-income and underprivileged groups, together with precariousness and de-institutionalization of the social protection system (Fagnani, 2010).

To explain how such a transition materialized, the article includes five sections, in addition to this introduction. The second section briefly presents the principal characteristics of the Brazilian social protection system, marked by heavy prevalence of cash transfers with limited redistributive impact. The predominance of monetary transfers aims to solve market failures. Meanwhile, redistribution tends to be more effective when it uses the tax system and guarantees unconditional access to public goods with the quantity and quality demanded by society. The third section describes the linkage between economic policy and social policy, predominantly via financial inclusion, emphasizing the weaknesses of the new "social model" in light of the current economic slowdown. The fourth and fifth sections address the model's contradictions based on a reading of social indicators that leads to questioning of the truncated pattern of reduction of inequalities; finally, the conclusion presents our arguments on the relationship between mass consumption and social policy financialization to demonstrate the inversion of social policy's logic and purpose, whereby it fails to protect from risks and uncertainty, while increasing vulnerabilities and commodifying various dimensions of social life.

## **2. Creation of the Brazilian Social Security System: extension of coverage and guaranteed income**

The 1988 Citizens' Constitutions in Brazil enshrined Social Security, which incorporated, in a single and exclusive budget, three inherent dimensions into the country's social protection systems: the pension system, social assistance, and health. Social Security thus emerged with a well-defined profile: contributive social security, integrating (but without mandatory prior contribution) rural workers and small farmers; social assistance, conditional and subject to needs tests for the poorest; and public health, universal and free. Still, the original characteristics of Social Security, committed to universality, uniformity, recognition of needs, and public provision, have been neglected, and their enforcement has been weakened and neglected by government, constantly adjusting protection parameters downwards to minimal levels, to the point of jeopardizing their constitutionality (Fagnani, 2010).

To better understand the history of consolidation of Brazil's social protection system, a fundamental element in the transition to a mass consumer society through access to the

financial system, we begin by presenting its characteristics and scope. Importantly, the trademark of social spending in Brazil is that 60% takes the form of cash transfers, while the provision of de-commodified services still constitutes a minority share, even less than specified by law. This pattern is not coincidental; it disguises a social model that prioritizes the solution to market flaws, neglecting mechanisms of social equalization and reduction of inequalities, itself a factor that inhibits redistribution (Lavinias, 2013; 2014).

### *2.1. The Pension System: the positive differential of social insurance in Brazil*

Despite remaining distortions, Brazil succeeded in establishing a degree of coverage in the elderly population that tends toward universalization in those 65 years or older. Rural retirements and pensions unlinked to prior contribution, a universal minimum pension pegged to the minimum wage, and the existence of a ceiling for contributions and benefits contributed significantly to the fact that the Gini index among elderly Brazilians (65 years or older) is lower than in the general population (per capita family income) and the employed (income from work). Likewise, and due to the system's design and enforcement, over the course of the 2000s retirements and pensions had a greater impact in reducing poverty rates<sup>2</sup> than did compensatory income transfers (Lavinias, 2013). In fact, in 2013, disaggregation of the sources of income measured by the National Household Sample Survey (PNAD) indicates that while retirements and pensions removed 21 million Brazilians from poverty and 19 million from extreme poverty, social assistance benefits reduced the number of poor by 7 million and the number of indigents by 4 million<sup>3</sup>. In 2011, fewer than 2% of Brazilians 65 years or older were poor (PNAD 2011), while the pension system covers more than 85% of the elderly population.

Brazil thus has an extremely positive result for Latin America, only second in coverage to Bolivia since the creation of *Renta Dignidad* (2007). Thus, the Brazilian's social security system's design overcame old cleavages (highly stratified regime) and avoided the trap of social insurance (the access to which would be exclusive to contributors). Thus, rather than adhering to the idea of cash minimums, subject to proof of income deficit, or from the perspective of a basic minimum (Bachelet Report, 2012), Brazil has broken with narrow Bismarckian logic and anti-poverty safety nets.

In addition, beginning in 2008, social insurance was flexibilized with the creation of a legal entity called the Individual Micro-Entrepreneur (MEI in Portuguese), which establishes formal ties with Social Security through a lower rate than the standard contribution, namely 5% versus 20% of the minimum wage. The highly advantageous "contribution rate incentive" benefits those who define themselves as self-employed, precariously employed, or working in any one of a list of some 250 occupations<sup>4</sup>.

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<sup>2</sup> The values used were the poverty and extreme poverty lines adopted by the Bolsa Família Program.

<sup>3</sup> For the evolution in the poverty and extreme poverty rates from 2001 to 2011 according to income sources, see Lavinias (2013).

<sup>4</sup> List available on the INSS website.

Another eligibility criterion was reported annual income of BRL 60,000 or less (US\$ 20,000)<sup>5</sup>.

This flexibilization denotes the expansion and strengthening of an original path that consolidates values of solidarity (de-individualization) and redistribution (a lower contribution rate, but an identical benefit to the contributors' minimum), constituting PAYG systems (Barr, 2004) and eliminating informality. It also gives clout to the social security system by increasing contributive density, including new groups of previously unprotected workers. This incentive increases the system's efficiency while simultaneously redistributing. In only a few years, 4 million Brazilians became MEI, joining the overall Pension System. They can retire based on age alone, but they will have the right to retirement benefits according to full amount of the minimum pension.

Thus, alongside pension and social insurance benefits, the trend is towards broad and growing coverage, which, based on differential status, conditions, and contributions, ensures a set of equivalent and uniform rights.

Brazil now has 24.5 million retirees and pensioners (8.6 million of whom are rural)<sup>6</sup>; two-thirds of the total receive a monthly benefit equivalent to one minimum wage<sup>7</sup>. The regular retirement ceiling for the general Pension System is relatively low: BRL 4,663.00 per month<sup>8</sup>.

Social insurance further guarantees workers' compensation, maternity leave, and unemployment insurance, extending the contributors' range of pension rights, as in the most modern social security systems. In 2013, spending on pension rights in the overall system totaled 7.38% of Brazil's GDP (ANFIP, 2014:84).

Finally, the general Pension and Social Security System has its exclusive sources of financing formally protected by the Constitution, namely pension contributions, and is thus not affected by the measure known as Uncoupling from Federal Revenue (DRU)<sup>9</sup>. This and recent labor market dynamics in Brazil, which generated some 21 million formal jobs from 2003 to 2013 (Lavinhas, Cordilha & Cruz, 2014), plus the incentives for pension contributions, mean that the Pension and Social Security System is operating with a surplus. "More jobs, increasing formalization of employment relations, and growing income from work have been key factors in these results" (ANFIP, 2014:59).

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<sup>5</sup> In May 2015.

<sup>6</sup> Anuário Estatístico da Previdência Social [Statistical Yearbook of the Social Security System] 2013.

<sup>7</sup> The monthly national minimum wage was BRL 788.00 or US\$ 262 (May 2015).

<sup>8</sup> US\$ 1,554 (May 2015). This limit actually disguises an incentive for the development of the private capitalization system, which is complementary in Brazil.

<sup>9</sup> DRU: Uncoupling from Federal Revenue: imposes a 20% across-the-board cut on all budgets to form a primary government surplus, except in Education. This cut was enforced under the first Cardoso Administration in 1994, with the name Emergency Social Fund (FSE in Portuguese) and has been reedited since then under various names.

Yet this performance has been jeopardized by the policy of massive corporate tax exemptions<sup>10</sup> in vogue since President Dilma's first term (2011-2014). In 2015 alone, payroll exemptions are expected to reach BRL 25 billion (US\$ 8.5 billion), not fully compensated for by the Treasury. Brazilian workers increasingly honor their commitment to contribute to the social security system, meanwhile exempting corporations. This is one aspect of the de-constitutionalization of Brazil's Social Security, striking at the cornerstone of its architecture, namely its exclusive budget, still operating at a surplus.

## *2.2. Social assistance: incomplete innovation that operates by exception*

One of the institutional innovations in the 1988 Constitution with the greatest social impact was the establishment of the right to assistance for needy, disempowered groups, whereby the state was responsible for ensuring cash minimums and provision of services to reduce poor families' vulnerability. Prior to 1988, social assistance was almost entirely charitable, and state intervention was limited to highly targeted initiatives, e.g., to deal with juvenile delinquency or single motherhood, viewed as social transgressions.

Social assistance in Brazil today is clearly an area where the standardization of programs and plans to fight poverty and extreme poverty has forged a new institutionalization, solidly anchored in the logic of subsistence minimums, in keeping with Social Security's regulatory framework.

Two major programs with vast coverage serve the target population. The Noncontributory Regular Pension (BPC in Portuguese) covers elderly persons over 65 years of age and persons with disabilities living in families with a per capita income less than one-fourth the prevailing minimum wage<sup>11</sup>. The BPC currently benefits 4 million poor persons with an income transfer amounting to one minimum wage. Meanwhile Bolsa Família serves practically 14 million families, guaranteeing an average benefit of BRL 170.00<sup>12</sup> for those with per capita income below the poverty line of BRL 154.00 per month<sup>13</sup>. An estimated 45 million Brazilians are thus reached by the federal government's large anti-poverty program, which guarantees a minimum subsistence income. Spending on the two programs reached 1.2% of the GDP in 2014 (when Bolsa Família cost 0.51% of the GDP).

The differences between BPC and Bolsa Família are not limited to the adoption of different poverty lines or even more disparate sizes of benefits (BRL 788.00 versus an average of BRL 170.00, respectively). BPC is unconditional for all who meet the

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<sup>10</sup> The current payroll tax exemption process began by benefiting four labor-intensive industrial sectors that were facing heavy competition from imported products, as well as two services sectors. The goal was to reduce costs and thereby increase the competitiveness of Brazil's battered industry. It now benefits 56 sectors, with a "gross annual turnover on the domestic market of BRL 1.9 trillion, the equivalent of 50% of the country's GDP before taxes" (ANFIP, 2014:70).

<sup>11</sup> The equivalent of BRL 197.00 per month or US\$ 65 (April 2015).

<sup>12</sup> The equivalent of US\$ 56 per month in January 2015.

<sup>13</sup> The equivalent of US\$ 51 in monthly per capita family income.

eligibility criteria, which is not true for Bolsa Família, the conditions of which (school attendance for children and adolescents and regular visits to health posts) can lead to suspension of the cash transfer if beneficiaries fail to comply.

Although Bolsa Família is a consensus as a public anti-poverty policy<sup>14</sup>, some Brazilians ask why it has still not been established as a right, at least to ensure full coverage of the target public. This means that not all the eligible individuals are covered. There is a coverage deficit, even acknowledged by the federal government, which varies from 800 thousand to some 2.5 million families, depending on the estimate's source. Again, the answer probably lies in macroeconomic administrative adjustments, which require flexibility, which a legal institutionalization hinders, since it implies rigorous standard-setting for its regulation. This option reinforces targeted minimums, with the price being a Social Security System rife with the latter's premises and values. Another weakness of the program is that it is not subject to the same rules that govern other social benefits, such as annual indexation of the poverty line and the amount of benefits to the families, both subject to federal government discretion.

Although it is not written into the respective legal framework, the force of the targeting norm has recently gained legitimacy and has been claimed as the justification for new over-targeting mechanisms, challenging the logic of citizenship underlying the very creation of Brazil's Social Security System. Such a norm runs counter to universal and public social security as provided in the 1988 Constitution.

The efficacy of Bolsa Família in reducing poverty has been the object of controversy. Lavinás (2013) demonstrates its marginal contribution to decreasing poverty rates (some 10%), far short of the impact of contributive transfers (retirements and pensions) and especially the minimum wage. The same is true for the drop in inequality: according to several authors (Saboia, 2014; Naercio, 2014), the real revaluation of the minimum wage in the 2000s, due to the rule on annual readjustment of its value<sup>15</sup>, explains some 75% of Brazil's improvement in the Gini index from 0.586 in 2003 to 0.500 in 2013.

The policy with the greatest redistributive impact in Brazil since 2000 was definitely the real increase in the minimum wage, in the midst of the creation of 20 million formal jobs from 2003 to 2013 according to the RAIS survey, as cited previously. Importantly, 84% of the formal jobs created during this period went to individuals earning twice the minimum wage or less (Lavinás, Cordilha & Cruz, 2014).

It is undebatable that Bolsa Família has been an important mechanism to fight extreme poverty. Its late adoption filled a severe historical gap. However, the annual

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<sup>14</sup> See the results of a national survey, evaluated and analyzed by Lavinás L. et alii (2014) in *Percepções sobre Desigualdade e Pobreza*.

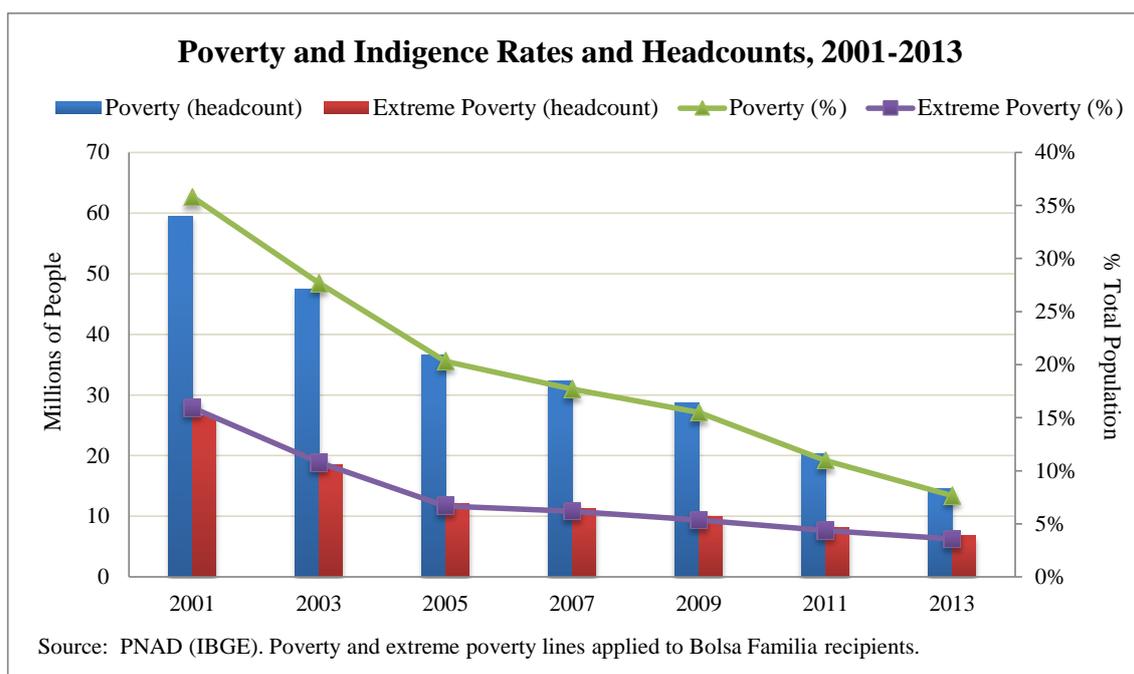
<sup>15</sup> One of the most important innovations of the Lula Era was the creation of the rule for readjusting the minimum wage, which consists of pegging it to the previous year's inflation, plus the GDP growth rate from two years before. This allowed the minimum wage to record important real growth, practically 100% from 2003 to 2014.

benefit guaranteed to each individual poor child is far less than the tax waiver benefiting the rich. Lavinás & Cordilha (2015) show that while the annual per capita expenditure on children and adolescents<sup>16</sup> benefiting from Bolsa Família was BRL 406.00 in 2013, the annual per capita tax waiver for dependents of families filing Personal Income Tax returns were nearly five times more (BRL 1,975.00) in the previous year. This gap may have been even greater in 2013.

Despite problems that reflect asymmetries and lack of coordination in the redistributive logic, ANFIP (2014) states that “the set of [cash] Social Security benefits has the capacity to decrease poverty and apply multiplying power to the economy. This multiplying effect of the Noncontributory Regular Pension (BPC), which targets the elderly and persons with disability, is 2.70, while that of the Pension System is 1.07” (p. 83).

Graph 1 depicts the downward trend in poverty and extreme poverty based on the thresholds adopted by Bolsa Família, namely BRL 154.00 per month per capita and BRL 77.00 per month per capita, respectively.

Graph 1



Both thresholds for identifying the poor are extremely low for an upper middle-income country like Brazil. Extreme poverty is defined as a person living on less than BRL 2.50 a day, which does not even meet the World Bank threshold, which sets the extreme poverty line at US\$ 1.25 per day (the equivalent of BRL 3.75 in May 2015). In

<sup>16</sup> In 2013, the Ministry of Social Development estimated that Bolsa Família covered 23 million children 0 to 17 years of age. Meanwhile 2.3 million dependent children were claimed as tax exemptions, only (!) 10 times fewer.

the case of the poor, the threshold is set between BRL 2.30 and BRL 5.10 per day, again below the recommended cutoff of US\$ 2.50 per day (the equivalent of BRL 7.50)<sup>17</sup>.

As an exercise, if Brazil were to adopt the European Union's extreme poverty line, equivalent to 40% of median income<sup>18</sup>, and a relative poverty line equivalent to 50% of the median, the percentage of extremely poor Brazilians would increase to 17.3%, and that of the poor to 23.1%.

Another peculiarity of Brazilian social assistance is that Bolsa Família and BPC are paid out of revenue from indirect taxation, levied on consumption. The 1988 Constitution provides that in addition to the Social Security contributions by employees and employers (tied to the payment of contributive benefits), various exclusive taxes (levied mainly on consumption) are supposed to finance non-contributive and health benefits. Whereas many developed economies grant tax exemptions on food and other staple goods and services<sup>19</sup> in order to expand consumption by poor families, Brazil has no such exemption (except for capital). This shows how Brazil's tax system is highly regressive: as poor people join the consumer market, they contribute directly to financing social assistance. According to a study by IPEA (2010), 50% of the Bolsa Família benefits received by families return to the state coffers in the form of taxes.

### *2.3. Health: deviant norm and breach of norms and rules*

In the case of health, the trend towards privatization of healthcare provision signals the paradox between the Constitution's wording and the reality of a sector suffocated by underfinancing, despite the Social Security surplus<sup>20</sup>.

The 1988 Constitution established a single and universal health system, entirely free. The paradox lies in the fact that private health expenditures now outstrip public spending in Brazil: according to the IBGE (2012), while families' private spending on health services and medicines amount to 5% of the GDP, public spending on the Unified Health System (SUS) represent only 3.8%, a contradiction that is becoming increasingly severe and a major concern for the population.

The public health system is thus moving towards "exclusionary universalization" (Bahia, 2013, apud Favaret & Oliveira, 1990) that may turn the SUS into a service destined exclusively for the poor – the dominant narrative today according to Bahia (2013:69).

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<sup>17</sup> If updated by the National Consumer Price Index, the poverty and extreme poverty lines from 2004 (BRL 100.00 and BRL 50.00) would be BRL 182.00 and BRL 91.00, respectively, in January 2015 rather than BRL 154.00 and BRL 77.00.

<sup>18</sup> Median per capita family income in Brazil according to the PNAD (2013) was BRL 594.50 per month (current values for September 2013).

<sup>19</sup> A case in point is England, where food, school materials, school uniforms, and medicines are not taxed. According to the OECD (2014), the mean value-added tax in member countries was 19% in 2009-2014. However, the value-added tax rate on food was only 5.5% in France (with the same rate applying to gas and electricity) and 7% in Germany and the United States. In Brazil, a study by the Getúlio Vargas Foundation (FGV) in 2008 estimated the mean value-added tax rate at some 43%.

<sup>20</sup> ANFIP, 2013.

Two forces act against the SUS. First, its institutionality as a universal public service is contested by underuse resulting from the sector's underfinancing, with serious health consequences. Meanwhile state subsidies granted indiscriminately and unlimitedly to the private sector reinforce the "complementary" role of public provision.

How does underfinancing happen? It results from draining the exclusive revenue from the Social Security budget. Health financing in Brazil comes from a set of taxes levied mainly on consumption and which thus experienced a peak period due to the strong expansion of families' consumption, the motor force of recent economic growth (Medeiros, 2015; Lavinias, 2014). Importantly, in Brazil no goods or services are totally tax-exempt, which means highly regressive indirect taxation, penalizing lower incomes proportionally more. But the states and municipalities are also required to contribute a share of their net tax revenue, 12% and 15%, respectively.

In 2013, just over 50% of the Social Security budget came from indirect taxation levied on the entire population (the other 47% consisted of pension system contributions). Since 1994, the DRU (Uncoupling from Federal Revenue) compulsorily confiscates 20% of this revenue source every year for the primary surplus, which represents the federal government's forced savings in parallel to a reduction in public spending. The absolute amounts extracted from Social Security have increased continuously (except during the international financial crisis of 2008-2009), due both to the increase in the rates for some social contributions – which go to the federal government – and to the increase in tax revenue resulting from the resumption of economic growth. From 2000 to 2012, some BRL 621.4 billion (US\$ 265 billion) was removed from the Social Security budget originally earmarked for health and social assistance alone. This represents seven times the federal spending on health in 2013 (BRL 85 billion, or US\$ 36 billion), a universal policy that has been scrapped by the funneling off (via DRU) of constitutionally earmarked tax revenue and mismanagement of public healthcare funds.

Per capita health spending in Brazil has approached US\$ 475 per year according to the Brazilian Center for Health Studies (CEBES, 2015), versus an average exceeding US\$ 2,000 in the developed economies. This explains why essential primary care for all income classes covers only 50% of the Brazilian population (Wagner, 2013). According to Wagner, if such care were expanded to 80% to 90% of the population, "80% of the health problems [would be solved] by personalized care with a preventive clinical approach", strengthening public provision and restoring constitutional principles, eroded by market-driven medicine.

Another way of knocking the air out of the Unified Health System (SUS) consists precisely of incentivizing market-driven medicine through hefty tax deductions that drain resources from the public sector. For example, personal income tax deductions for private health expenses are unlimited. In Brazil, "expenditures not only on health insurance, but also on health professionals' fees, clinics, and hospitals can be deducted – benefiting both physical persons and corporations –, thereby reducing the

federal government's tax revenue" (Ocké-Reis, 2014:261). The same author compared direct government health expenditures to fiscal waiver for private health expenses in 2012 and concluded that "government failed to raise BRL 18.3 billion (or U\$ 8 billion), or 23% of the BRL 80 billion spent by the Ministry of Health" (2014:263) that year. No less than 77% of tax spending on health benefits individuals in the highest personal income tax bracket (Lavinás & Cordilha, 2015), i.e., the wealthiest portion of the population.

Thus, private health insurance, supported by tax legislation in recent decades that multiplies incentives via income tax deductions, has expanded its supply, including in primary care<sup>21</sup>, due to government shortcomings. This paradox – expansion of the private healthcare market at a faster pace than the Unified Health System (SUS) – suggests that a supply of public provision limited to essential services is bound to reinforce the market, even in primary care, thereby violating the principle of universality – guaranteed access to healthcare goods and services for whoever needs them – and comprehensiveness that attributes to the SUS the care for diseases and health problems at all levels of complexity.

The bottleneck commodification of health is based on a continuous process of stratification of the insurance supply, which limits coverage as a function of income (payment of the premium). Rather than acquiring "certainty" (Barr, 2012), which is the inherent logic behind purchasing private insurance, a major portion of the population that buys health plans are unaware of what they are buying or the degree of protection. Government regulation is deficient, leading to a burgeoning wave of court disputes between policyholders and private insurance companies. An estimated 45 million Brazilians have private health insurance, or about one-fourth of the population (IBGE, 2013), a share that increased together with the rise in average income that characterized the recent phase of resumption of economic growth (post-2003). According to a report by CEBES (2015), from 2003 to 2013 there was a 41% increase in the number of Brazilians with private health plans.

The situation becomes even more dramatic considering that 62% of Brazil's hospital beds are private, and two-thirds of the available diagnostic and treatment equipment is allocated in private hospitals and clinics, e.g., 64% of all MRI machines (CEBES, 2015).

#### *2.4. Social policy contradictions*

This shift from the public supply to private healthcare provision is not a coincidence, nor does it reflect a deliberate choice by the population due to rising family income and thus more demand for medical coverage. For example, there was no equivalent shift in the pension system. Despite a lower contribution ceiling that drains resources from the general pension system to private complementary social insurance,

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<sup>21</sup> High-complexity medicine tends to be absorbed by the public sector due to its high cost, with increases private medicine's profitability.

social insurance has not been completely financialized and privatized. In health, however, the dynamic has been towards strengthening financial capital and the total commodification of health.

The incongruent scenario in Brazil stemming from the path taken by social policy can be summarized as the prevalence of income transfers to the detriment of de-commodified services, characterizing not only the commodification of health, but also increasingly that of education. On the one hand, conditional cash transfer programs as an anti-poverty mechanism have significantly extended their coverage, e.g. pension benefits. In parallel, the third leg of Social Security, the Unified Health System (SUS) is still subject to underfinancing that jeopardizes its effectiveness and aggravates the contradiction whereby Brazil has a public, free, and universal system that is unable to meet demand and provides precarious and over-targeted care. An example includes the programs designed especially for diseases of poverty, the list of which gives rise to priority actions in the neediest areas, highly concentrated in extreme poverty.

In the midst of tensions, Brazil's social policy has served to consolidate the *social-developmental* consumption model that consisted of promoting the transition to a mass consumer society through access to the financial system. The novelty of the social-developmental model is having established an unprecedented link between credit and social policy to foment families' consumption and promote in the short term a growth cycle led by domestic market dynamics. This link between social policy and economic policy spawned a "social model" in which anti-poverty through social minimums and real and accelerated appreciation of the minimum wage<sup>22</sup> – a mechanism of social regulation established in the Vargas Era –, leaving to the market the provision of a wide range of public goods and services, has emerged in step with credit as the magic formula in the operationalization of a catching-up strategy. The strategy's core mixes incorporation into the market and growth, without tackling such persistent and disaggregating obstacles as the country's structural heterogeneity in productive and social terms (Lavinás & Simões, 2015).

### **3. Social policy as collateral**

What kind of "social model" is this?

The grand architecture began with the creation of payroll credit in 2003, which linked priority access to credit lines with less extortive interest rates for civil servants and formal wage-earners in general. In 2004, the system was extended to include retirees and pensioners<sup>23</sup>. Especially for pensioners, social policy became the collateral

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<sup>22</sup> Brazil's minimum wage doubled in real value from 2003 to 2014 thanks to the annual readjustment rule, adopted since 2005. The rule consists of pegging the minimum wage to the previous year's inflation rate, plus the GDP growth rate from two years previously, which ensures real minimum wage appreciation.

<sup>23</sup> Payroll credit for workers employed according to the Consolidated Labor Legislation CLT was established by Law 10.820 of December 17, 2003, under the Lula Administration. Shortly afterwards, in September 2004, Law 10.953 amended the previous law and the right to payroll credit was extended to retirees and pensioners under the National Social Security System (INSS). Thus, payroll credit initially

that was missing and which is underwritten by government beyond income from work (which really is relevant collateral). Importantly, wages – and especially the minimum wage – achieved important real gains since 2003, in a sustained path of recovery.

In parallel, also in 2004, the Bolsa Família program was regulated, finally addressing a historical issue for Brazil of expanding the incorporation into the market of millions of families whose degree of destitution not only limited their opportunities, but threatened their very existence and dignity. Little by little the mechanisms were expanded for access to consumer credit by beneficiaries of this large national anti-poverty program, to incentivize a consumption model that fueled the domestic market, doubling retail sales from 2003 to 2014 (IBGE, Pesquisa Mensal de Comércio) and in the process financing access to imported goods, favored by an over-valued exchange rate. In other words, exporting jobs and aggravating the country's trade balance.

The first years of the Labor Party (PT) Administration also witnessed the regulation of micro-credit<sup>24</sup>. Between 2003 (when micro-credit was created) and 2007, 90% of such loans were used to finance consumption (BACEN, 2011). This percentage dropped slowly starting in 2013, when the law was amended to determine that 80% of the loans should go to oriented productive micro-credit. However, even after the change in the law, current consumption still constituted more than 50% of the credit outlays.

This shows a well-orchestrated strategy to expand the instruments for credit market access, encompassing in the distribution's tail especially the poorest classes, previously excluded from this market.

Finally, aimed at financial inclusion of Bolsa Família beneficiaries, the Banking Inclusion Project (PIB) was launched in 2008. Without achieving the expected success, as announced with fanfare, the PIB attempted to deliver new financial instruments and services to the target public of this anti-poverty program. The project was initially limited to opening simplified bank accounts (through an agreement between the Ministry of Social Development + Caixa Econômica, Brazil's national savings and loan bank, called the "Caixa Easy Account"), which was expanded immediately. Very quickly, however, account holders took out credit cards for installment purchases and other services and products<sup>25</sup> under the PIB. Still, the fact that some 2 million families opened accounts, of the 14 million registered as beneficiaries in 2010, suggests that exclusion on the basis of prices or credit conditions, perhaps self-exclusion itself, dampened the interest of the groups most vulnerable to the financial market. Even so,

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favored public employees and formal workers. The so-called *Payroll Discount Personal Loan* quickly reached the country's entire retail banking system for all Brazilians with fixed, stable, and virtually risk-free employment, and civil servants with public admissions. A year later it reached retirees and pensioners, regulated by the National Social Security System (INSS) (Lavinás & Ferraz, 2010).

<sup>24</sup> Lei 10.735 de 2003.

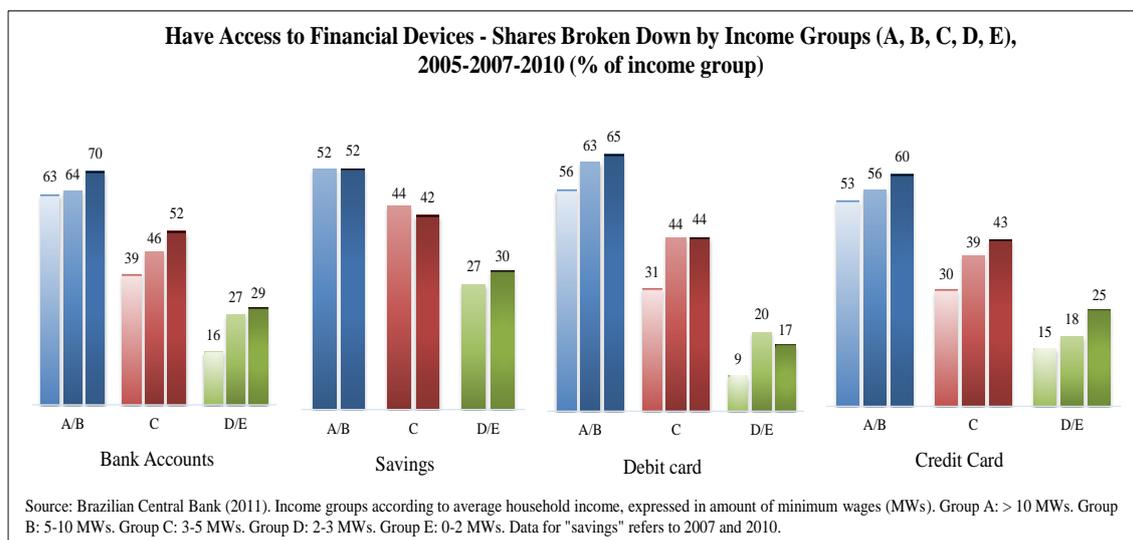
<sup>25</sup> Theoretically, it was predicted that Bolsa Família beneficiaries would enjoy access to home loans, loans in general, life insurance, capitalization, and savings. Except for the latter service, which reached 2.3% of beneficiary families, other services and mechanisms of financial inclusion covered no more than 0.3% of beneficiaries in 2010. Thus, adherence to banking inclusion proved to be very limited.

credit for purchasing durable consumer goods extended significantly to the poorest groups.

Thus, while credit represented 22% of Brazil's GDP in 2001, by December 2014 it had exceeded 58%. Personal loans accounted for 47% of all the credit supply in late 2014, and free credit<sup>26</sup> (for consumption in general and vehicle purchases, whether payroll or non-payroll loans) amounted to nearly two-thirds of all personal credit. The volume tripled from 2007 to 2014. By way of example, from 2003 to 2010, the number of physical persons that were credit system customers (SCR)<sup>27</sup> (with different personal taxpayer identification numbers) identified as borrowers of loans of at least BRL 5,000 increased by 347%, while the number that took out loans of less than BRL 5,000 increased by 352%. In other words, both small borrowers and those with higher purchasing power experienced strong expansion, far superior to the population growth rate.

Thus, there was in fact a vigorous process of financial inclusion beyond bancarization, the latter equally encouraged since 2004 with the creation of simplified bank accounts. Graph 2 shows this trend, that checking accounts and credit cards enjoyed sharp growth from 2005 to 2010 in all socioeconomic classes, but most significantly in those with family incomes less than three times the minimum wage (classes D and E).

**Graph 2**



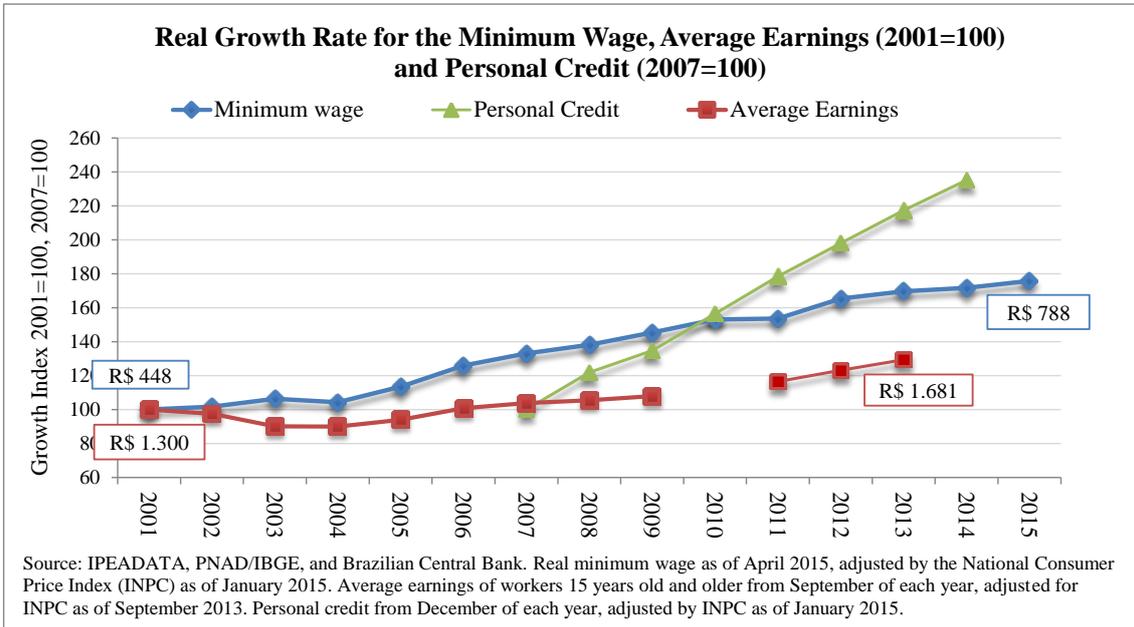
Although it might seem logical that rising average consumption by Brazilian families was due mainly to the increase in income from work resulting from the generation of jobs, Graph 3 shows that while the minimum wage enjoyed an 80% real

<sup>26</sup> The other credit item for physical persons is so-called directed credit, which includes farm credit, home loans, micro-credit, access to the National Economic and Social Development Bank (BNDES), and other directed funds.

<sup>27</sup> Sistema de Informações de Crédito do Banco Central [Central Bank Credit Information System].

increase between 2001 and 2015, average wages increased by 30% from 2001 to 2013, whereas personal loans grew by 140%.

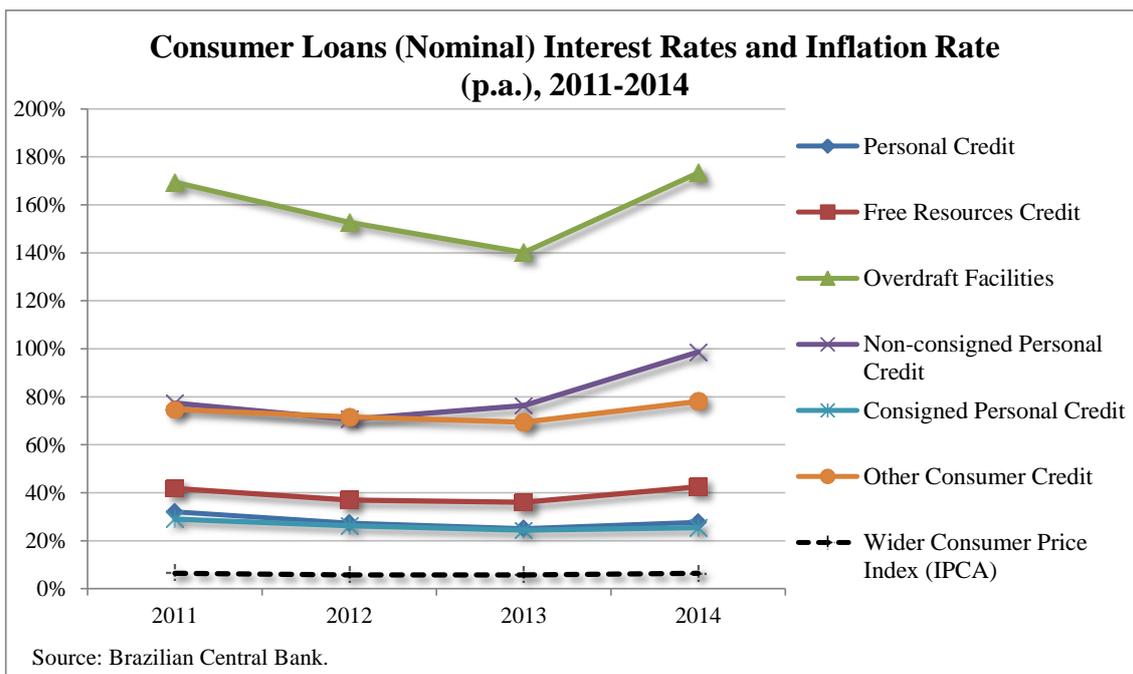
**Graph 3**



The Lula and Dilma Administrations innovated by promoting credit inclusion, meanwhile increasing families' indebtedness.

This is precisely the Achilles heel in the strategy of combining social policy with access to the financial market. The strategy's hellish face emerges in the details on the cost of credit. A glance at Graph 4 captures the disparity in interest rates in various personal credit lines in recent years. What all the credit lines have in common is alarmingly high interest rates when compared to the inflation rate (IPCA). The issue is that they are all persistently high, high stratospheric.

**Graph 4**



In early 2015, in the wake of successive and uninterrupted increases in its benchmark SELIC rate, the Brazilian Central Bank signaled that the interest charged in a wide variety of consumer credit modalities were mirroring this increase. According to estimates by the National Association of Financial, Administrative, and Accounting Executives (ANEFAC), the monthly commercial interest rate in February 2015 was 5.1% (a projected annual rate of 87.12%)!

According to the Central Bank, Brazilian families' indebtedness to the national financial system in the early months of 2015 represented 48% of their income, versus 22% in early 2006. This would not be a problem, except that after inflating families' income (the motor force of economic growth since 2006, using social policy as collateral), the government, in the midst of a recession knocking on the country's door, decided to alter the rules for accessing unemployment insurance, cutting and reducing survivors' pensions, while the tax system (with its regressive structure, weighing most heavily on consumption) grabbed more than half the gross income of families living on less than two minimum wages (Lavinias, 2014).

In other words, the disposable income of working or retired Brazilians is still low, very low. Equally low is the income of Brazilians in general, given the country's extreme inequality. According to the IBGE, the mean monthly income from work in the year 2014 (PME) was BRL 2,054.00 (or approximately US\$700). Added to this equation is the fact that the bulk of social policy consists of cash income transfers (contributive or non-contributive), while the portion of public provision of goods and services that should be guaranteed free of cost continues to dwindle, forcing whoever seeks security and quality into the private market, with its extremely high and distorted prices, incompatible with the population's income and compromising a significant share of it. According to a survey by Instituto Data Popular published in the *O Globo* newspaper in

September 2014, socioeconomic class C<sup>28</sup>, today the equivalent of half the Brazilian population and holding 58% of the loans, devotes 65% of its income to payment of services and 35% to the purchase of products, while these percentages were the opposite just ten years ago. By far the predominant services are essential ones like health and education, which should be de-commodified as citizens' rights.

In other words, the Brazilian population's income is drained by growing indebtedness, heavy indirect taxes (Lavinás, 2014), and the acquisition of what should be provided with quality and in amounts according to contingencies, free of cost – that is, public services like health, education, security, and transportation.

The delay in conducting the Family Budgets Survey (POF) by the IBGE<sup>29</sup> hinders a detailed and consistent analysis of this situation which can be expected to further deteriorate due to rising unemployment. A survey by the Central Bank on financial inclusion (2011) estimated that if the nationwide unemployment rate increased by 1%, the probability of default on personal consumer loans would increase by 3 to 4 percentage points. Therefore, in a scenario of prolonged economic stagnation, families' loan default tends to grow (Correa, Marins et alii, 2011). Consumer credit in general is much more sensitive to the economic situation than is directed credit, for example.

Still, financial inclusion's upside was that it allowed reducing inequalities in access to certain durable consumer goods such as home appliances and electric and electronic equipment. According to the PNAD, in 2003 only 10.6% of the poorest households (the lowest tenth) in the distribution tail reported owning cellphones. By 2013 the proportion had increased to 79.3%. In the case of sanitation, Brazil has not even come close to so-called "universalization via the market": while 25% of the poorest tenth of families had access to adequate sanitation in 2003, by 2013 the proportion had increased only slightly, to 35%. In 2013, it was only in the 6<sup>th</sup> income decile and higher that two-thirds of households reported adequate sanitation. This is hardly surprising given that Brazil's social spending profile is at the root of such gross distortions.

Yet there is another aggravating factor. In his most recent book, Medeiros notes that "the growth in imported consumption, 13.9%, was extraordinarily higher than the 3.7% growth in mean annual household consumption in 2003-2009" (2015:119). As if this were not undeniable evidence of the failure of the social-developmental growth model, the same author points out that the growth rate in the consumption of imported household appliances in the same period showed the highest annual growth, 33.8% on average, out of a total of 22 sectors. For domestic consumption, the highest mean annual rate (not coincidentally) was in the financial industry, followed by home appliances, 8.4% and 7.8%, respectively. This means that the recent growth was not backed by growing gains in productivity and innovation in the national industrial chains, but fed

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<sup>28</sup> Monthly per capita family income of BRL 1,184 or less.

<sup>29</sup> The field survey of the Family Budgets Survey (POF) should have been carried out in 2013-2014, but it was postponed until 2015-2016.

by the exchange rate and credit, both at the origin of the transition to a mass consumer society in Brazil. The policy of wage appreciation alone, particularly that of the minimum wage, would have been absolutely insufficient to eliminate the barriers to expansion of the mass market.

#### **4. Brief conclusions**

The aim of social policy is to reduce vulnerabilities, prevent poverty, equalize opportunities, and above all de-commodify access while guaranteeing rights. Combined with an economic policy committed to sustainable development in the short and medium term, it is a key part of promoting growth with redistribution.

In Brazil, however, despite a new institutional framework in the field of social rights enshrined in the 1988 Constitution, social policy assumes a central position as collateral to provide access to the financial system and bolster consumption dammed-up by relatively low wages and a relative price structure for industrial goods that became more favorable when it dropped, due to exchange rate appreciation in recent years and the impact on imports.

However, the process of mass incorporation into the market would not have been possible without the impetus of credit and the various modalities that emerged and were coupled to social policy to finance access to goods and services – through distinct logics and mechanisms –, leading to faster growing consumption by Brazilian families when compared to GDP growth in this new cycle of economic expansion. The market today encompasses all Brazilian families. Not coincidentally, at the initiative of the Brazilian state, this novelty gains muscle in the midst of the process of global financialization<sup>30</sup>.

This new financial order (Shiller, 2003) has focused on mechanisms that extend the limits of financial inclusion, particularly in the developing world and in the emerging economies, reducing exposure to moral risk for creditors (financial capital). In reality, finance is now inherent to all kinds of production of goods and services provision. As highlighted by Lazzarato (2012), it employs multiple and sophisticated mechanisms of indebtedness to encroach on the social welfare sphere, leading to the privatization of its services and turning social policy into a sector devoted more to accumulation and profit for private corporations (notably financial ones) than to curing inequities and making societies more egalitarian.

Brazil's recent growth cycle included much of what is recommended by the theoreticians of modern finance, which beyond its boundless scale and diversity, integrates the behavioral dimension into its framework (Shiller, 2003) in order to keep pace with changes in demographics, family arrangements, and the labor market.

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<sup>30</sup> We define financialization, here according to Epstein (2014:4), indicating a movement in capitalism that is simultaneous with globalization and the predominance of neoliberal thinking, in which financial institutions' profit grows more quickly than that of non-financial corporations. We thus follow the definition used by Krippner (2004:14), pioneer in this phenomenon's categorization, when she defined it as "a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production".

Access to the financial market was the great novelty in the burst of mass consumption and the search for more human capital in a society that maintains its structural weaknesses and profound inequalities. Such is the trademark of what has come to be called social-developmentalism. In it, social investment faltered: insufficient basic sanitation, lack of decent housing for huge contingents, postponed environmental preservation, safe drinking water for only part of the population, public health with deficient preventive and therapeutic services, education promoting unequal opportunities, etc. And what is most serious, the Social Security system is threatened by de-constitutionalization of its principles. Not to mention unbridled violence taking thousands of lives every year in a country with a full-fledged democracy.

Equally important perilous is a strong dimension of a vicious, strikingly neoliberal strategy: new forms of indebtedness multiplying and reshaping every individual social place. If Brazilian families' level of indebtedness tends to increase even more rapidly due to the sharp increase in real interest rates, the way out of the crisis and the recovery of a new cycle of expanded demand will obviously be jeopardized. The dramatic result of such a strategy is to exacerbate shrinking demand.

To respect and consolidate the great institutional innovation that came with the creation of Social Security in 1988 is apparently not on the country's radar screen. Social policy's role must be to ensure growing levels of well-being and not primarily serve access to the financial market as collateral for growing indebtedness, or for acquisition of services that the state neglects to provide for its citizens.

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