



SCHOOL OF ECONOMICS AND MANAGEMENT

From Wall Street to Brazil: The Financialization of the Brazilian Economy as a Driver of Increasing Inequalities

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Abstract

The Brazilian economy is now financialized, where the finance sector and its priorities have become increasingly dominant in all aspects of the economy. At the same time, the country has been facing extremely high levels of inequality and is currently the 8th most unequal country in the world. This thesis aims to analyze the associations between the process of financialization and inequality trends in Brazil, and therefore discuss how it may affect income distribution and economic development in the country. Guided by the Post-Keynesian Institutionalism framework, the research will include a methodology that investigates how the configuration of the Brazilian financial system across time has come to influence inequality in the country through five main channels. Namely, they are a) unemployment; b) a decline in private investments within the productive sector; c) unsustainable economic growth; d) the worsening of welfare policies; e) a higher probability to financial crisis. Building upon the previous literature and the data collected, the study finds the process of financialization has served as an obstacle to reducing the income gap in Brazil by two means. Firstly, by promoting a shift away from investments in productive capital to those in financial investments and services, which is signaled by an inverse correlation between the rate of financialization of the Brazilian economy and the rate of fixed productive capital accumulation. And secondly, by altering the dynamics of social spending in the Brazilian welfare system through a recommodification process. Lastly, this study finds that while a number of developed economies have gone through a financialization process, Brazil is unique due its harmful trajectory in detriment of its economic development and equity.

Keywords: financialization, inequality, recommodification

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List of abbreviations

FIES	Brazilian Student Financing Fund
GDP	Gross Domestic Product
IBGE	Brazilian Bureau of Statistics and Geography
IGP-DI	General Price Index - Internal Availability
IMF	International Monetary Fund
INEP	National Institute for Educational Studies and Research
IPEA	Brazilian Institute for Applied Economic Research
PNAD	National Household Sample Survey
PKI	Post Keynesian Institutionalism
SUS	Brazilian Unified Health System
WID	World Inequality Database

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1. Introduction

Since the late 1970s, the world economy has experienced a major shift towards the expansion of financial markets. Similar to fundamental transformations reminiscent of the transition from feudal to capitalist economic institutions, or from agrarian to manufacturing-dominated production, the transformations of modern economies to that of being dominated by financial firms and financial conceptions of both control and investment can be marked as the entering of a new phase in the development of capitalism (Sawyer, 2016, p. 47). This process is referred to as ‘financialization’, and it is marked by the accelerated enlargement of the financial sector. It is also frequently associated with a decline in productive activity and a force of divergence in the global wealth distribution (Piketty, 2013). Though this finance-led system stemmed from the Anglo-Saxon world, the dominance of finance completely reconfigured the macroeconomic environment and quickly came to influence and guide public policies at other latitudes (Stockhammer, 2007). Remarkably, the Brazilian economy was confronted with a premature process of financialization that emerged in the late 1970s, while on a still developing and extremely heterogeneous economy. Already during the early and mid-stages, the finance sector within the Brazilian economy had come to prevail signaled by a staggering 1039% increase of profits among the ten largest banks between 1994 and 2003 (Boito, 2006, p. 246). Notably, the Brazilian case differs greatly from those of most developed economies, as the process of financialization came to be developed under the logic of deposits (credit markets), as opposed to investments (capital markets), which this paper will point to acting as an impediment to economic growth in the country.

In parallel to this process, income inequality has become a defining trait of the Brazilian economy, which currently sits as the most unequal country in Latin America and 8th most unequal in the world – the only among the eight to be situated outside sub-Saharan Africa (World Bank, 2020). The relationship between the Brazilian process of financialization and income inequality is then presented as an interesting, conspicuous case to be put under discussion. Thus, this thesis takes its departure on the premise financialization seems to have been increasing the correlation between return on capital – explained as how effective a company can turn capital into profits –, and the initial size of the investment portfolio – the ownership of a financial asset with the expectation that it will earn a return and/or grow in value over time –, leading to an inequality of returns that acts as an additional and quite worrisome driver of disparities in the global wealth and income distribution (Piketty, 2013).

Likewise, it also departs from the notion this process has subverted the role of social policy in Brazil, fostering an already imperfect and incomplete welfare system to that of being deprived of any residual redistributive efficacy (Lavinás et al, 2017a).

1.1 Aim of the study

Following the exponential rise of financialization and the emergence of underexplored consequences to this process – especially in the Global South – this study aims to analyze the effects of the financialization process in the Brazilian economy regarding inequality trends. In particular, it aims to determine the channels through which the financialization process affects inequality in the country. It will do so, by looking at the correlation between the financialization rate and the accumulation of productive capital, analyzing the share of interest income in the different sectors of the economy, and investigating banking variables, such as the spread rate and banking concentration. Further, it will examine how this process impacts the provision of public goods and services, by investigating the direction of economic surplus and the recommodification of social spending. Lastly, it will reflect whether this process presents a structural impediment to economic growth or not to the case of Brazil.

In order to reach that aim, this research poses the following questions:

How does the process of financialization of the Brazilian economy affect inequality trends in the country?

The main question will be explored by following two sub-questions:

How does the Brazilian socio-economic development context fit into the discussion of finance-led growth and State-led development?

How substantial is the current process of financialization of the Brazilian economy?

The main research question is considered a casual type, as it aims to study whether one or more variables causes or affects one or more outcome variables. Additionally, it is also a mixed-method question that directly addresses the mixing of qualitative and quantitative strands of the research (Creswell & Creswell, 2007). The other two sub-questions aim to expand the discussion and thus encompass an analysis of the role the State has played and provide further

reflections. Lastly, the study intends to optimize all stages of the research design in order to provide the most correct answers to the research questions, therefore serving as a credible source for future economic and financial policy design, as well as further research on the topic.

1.2 Scope and relevance

The analyses of nature, characteristics, and scope of financialization as a new stage in the development of capitalism have taken on greater depth and centrality in the realm of heterodox thought and overall economic development since the mid-2000s (Lavinias et al., 2017a). Yet, research is still embryonic when it comes to its adverse effects, especially in economies in the Global South. Hence, this research is relevant because it contributes to the growing body of literature exploring the cataclysmic consequences of the process of financialization, in particular by investigating its effects on inequality trends in Brazil from a historical perspective. Further, the research case not only presents a country with a rather unique process of financialization, but one that stands out for its extremely high inequality, thus portraying a paragon to showcase the different associations between the variables. Furthermore, the rising unbalance between the public and private sector are said to be a major force of expansion of income inequalities currently – with financialization being a powerful tool behind the lack of harmony between both sectors. Thus, this research is relevant to continue the unfolding of causes of inequalities in the country also from a contemporary, financial perspective. Lastly, it is relevant to policy discussion over the current Brazilian financial model and to guide income inequality-related policies in the country. The scope of this research is then determined by finding the ways in which the process of financialization of the Brazilian economy has contributed, and if, to inequality trends in the country.

1.3 Definitions

Financialization is not defined by a single concept, but rather by a collection of empirical features and processes. Thus, it becomes relevant for this paper to present different definitions on ‘financialization’ that help guide this research. Epstein (2005, p.3) describes it as “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economy”. Chesnais (2016) sees it as the widespread installment of interest-bearing capital throughout the economic system as a whole, inherent to neoliberal ideology (Duménil and Lévy, 2010). Next, financialization is also

understood as a systemic alteration of mature capitalist economies (Lapavistas, 2011). However, this paper debunks this understanding by arguing this process is not exclusive to mature capitalist economies, thus reinforcing Stockhammer (2007) perception that though originated in the likes of Wall Street institutions, especially in the United States and U.K, financialization has altered economic systems elsewhere at similar lengths. Devey and Lin (2013) perceive financialization as a process of income redistribution with two fronts. One front refers to a rent-seeking finance sector with a more and more concentrated and influential political stance, which is seen successful at bolstering the pooling of profits and income in the finance sector. The second front refers to the altering of behavior from non-financial firms to that of getting away from productive and non-financial services, and instead heading towards financial investments and services – a transformation composed of both strategic and normative characteristics that has led to a reduced centrality of production and bargaining power of labor. Lastly, Krippner (2005, p.174) defines it as “a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production”. Altogether, this paper will be guided by Epstein (2005, p.3); Chesnais (2016); Duménil and Lévy (2010); Stockhammer (2007); Devey and Lin (2013) and Krippner (2005, p.174) definitions and perceptions on what constitutes the processes of financialization.

1.4 Thesis outline

The next section will present the context in which the study is conducted and introduce the main units of analysis of this paper. Namely, it includes the overall financialization process, the Brazilian course over financialization and inequality in Brazil. Following, the literature review section will observe the research done on the aforementioned topics as well as the recommodification of social spending in the country. Focus will be given to the literature that concerns the Brazilian case primarily. After that, the theoretical framework will be presented which follows the Post Keynesian Institutionalism (PKI) model. The following section will introduce the methods and data used, as well as source criticism and the methodology limitations. The analysis of the findings will then be presented and discussed. Lastly, this paper will conclude with a discussion to answer the research questions in regard to previous studies, as well as promote a reflection over the current Brazilian financial model.

2. Context

2.1 Financialization

At the global level, the financialization process is often pointed to have originated as a result of changes in the monetary and financial system after the 1960s. According to Bruno et al (2009) these include the collapse of the Bretton Woods system and the change in the international monetary standard; the internationalization of capital markets, the intensification of innovation and financial competition, and the phenomenon of banking disintermediation – meaning the withdrawal of funds from intermediary financial institutions, such as banks and savings and loan associations, to invest them directly. Further, the authors list the emergence of new and powerful financial players (pension funds, mutual funds and insurance companies), and the implications of these institutional changes on centralization and the increase in financial liquidity outside the traditional circuit managed by Central Banks to have also impacted. Furthermore, stagflation – an economy that is experiencing a simultaneous increase in inflation and stagnation of economic output – and the reaffirmation of American hegemony through the bias of the new management of monetary policy, with a drastic increase in interest rates in 1979 have also played a part. Lastly, changes in the strategies of large industrial corporations, both for the transnationalization and internationalization of the productive system and for the modification of patrimonial structures, meaning the multiplication of mergers and acquisitions operations, have also been listed by the authors as contributors for the creation of this phenomenon.

It should also be included, with the goal of contextualizing the process of financialization, that an economy may only experience this phenomenon when it develops certain institutional and organizational structures that are able to reproduce and affirm the logic of rent-seeking and equity accumulation over other sectors of the economy (Bruno et al, 2009). In addition, the economic policy regime, and particularly the monetary policy, must be compatible with the demands of the banking-financial system and of the capital holders in terms of liquidity and high profitability of the assets traded (Bruno et al, 2009). Altogether, it means this process has a very contextual nature that should be respected in order to accrue reliable results, which is why this study is conducted under a single instrumental case study.

2.2 Brazil's early financialization

Hailed as the “economic miracle” during the 1967-1973 period – a result of policies designed to favor business and encourage foreign and domestic investments –, the Brazilian economy entered into a crisis propelled by the two international oil shocks of the 1970s and many policy shortcomings (Souza, 2017). In return, institutional mechanisms for monetary adjustment spread quickly through the banking and finance sector, giving rise to the so-called index-based or financial currency in the late 1970s. Soon after, the 1980s fiscal and external-debt crises paved the ground for an extraordinary financial expansion and banking concentration, which was fueled by inertial inflation (Lavinias et al., 2017a). With an economy burdened by debts in foreign currency and unable to rein in devaluation, the State backed the financial and banking sector during this period, which consequently led to a period marked by inflationary gains derived from the public debt in overnight operations. Altogether, it led the country's economy to financialize early on, with corporations and banks prioritizing the accumulation of financial assets over any bonds to future productive sector investments. In particular, research on Brazil's economy's early financialization has already verified to some extent the capital owners' preference for short-term capital, or liquidity, which prevents capital from remaining in the productive sector (Lavinias et al, 2017a; Bruno et al., 2009). By then, many of the traits that would subsequently be documented in the international literature to identify financialization processes were already visible in the Brazilian economy at the time: a) the rise to hegemony of the banking and financial sector, while redefining the center of industrial accumulation to short and/or extremely short-term liquid financial assets; b) the loss of State autonomy in regard to the creation of economic policy; c) a sharp increase within personal and functional concentration of income and wealth, increasing social inequalities; d) a sharp decline in investments within productivity and a positive trend toward product stagnation; e) rent-seeking patterns of behavior among non-financial enterprises and wealthy households (Lavinias et al, 2017a). In comparison to other emerging economies, the movement from investments to financial products was obvious to an exceptional degree. The banking and financial industry guided the institutional adjustments that led to the commercial and financial liberalization of the 1990s, solidifying its position as a hegemonic sector. Brazil's international integration would take on a new shape, one that favored high finance but was manifestly detrimental to industrial accumulation.

2.3 Inequality in Brazil

Inequality in Brazil is a full, though hard to digest plate for an economic historian. The country has been battling with acute issues of inequality that spans across its early colonial history, in the 16th century, to modern days. This research however will be concerned with the levels of inequality in Brazil starting in the late 1970s and early 1980s, which marks the entering of the period under discussion. This section in particular aims to give an overview regarding the levels of inequality the country has faced since and some of the structures behind it, while an in-depth discussion will follow in later stages of this study.

From a historical perspective, it can be seen in Figure 1 the GINI coefficient in 1981 was 58,00. When compared to the same index in 2003, one can verify it remained virtually the same. It leads to the conclusion that in over two decades, Brazil was unable to address its relationship with inequality effectively (Martins, 2016). Particularly, while looking at levels recorded during the September months of 1987, 1988, 1989, inequality of income rose at 7,2%, 26,9%, and 36,3% respectively, the latter giving Brazil the title of most unequal country in the world at the time (Hoffman, 1995). This, in return, happened at the same time Brazil would enter the top 8 largest capitalist economies (Pochmann et al, 2014). Quite clearly, while Brazil grew its economy, it did so unevenly. Precisely, while the income from different groups in society increased, the poor benefited far less than the rich (Souza, 2017).



Figure 1: GINI Index of Brazil 1981-2017 (World Bank, 2020)

While accounting for the influence of politics and institutions on income inequality, it can be argued long-term dynamics of the concentration of income have been influenced, since the 1920s, by the fact the country has had five different Federal Constitutions and alternated between democracy periods and two phases of dictatorship — the “Estado Novo” 1937-1945 and the military dictatorship 1964-1985 (Souza, 2017). The transition to democracy happened simultaneously with the fallout of the oil shocks and the breakdown of State-led development. Brazil had indirect elections for president in 1985; a very social democratic Constitution was drafted in 1988; and clean elections were held in 1989. In spite of the political and economic chaos of the early 1990s, the “Plano Real” was introduced in 1994 and its success in stabilizing the economy propelled the Ministry of Finance, Fernando Henrique Cardoso, to two presidential terms. Followingly, growth resumed in the 2000s under the helm of Luis Inacio Lula da Silva, one of the founders of the Workers’ Party, Brazil’s major left-wing party. Dilma Rousseff, Lula’s former Chief of Staff, was elected in 2010 and reelected in 2014, but her second term was cut short in 2016, when she was impeached on allegedly budget tampering charges (Souza, 2017).

Fast forwarding, the Brazilian economy is ranked the 9th largest in the world when considering its GDP in 2019 (World Bank, 2020a). Though, despite being Latin- America’s largest economy, its wealth inequality has not ceased to be extreme. Contemporary data, such as the GINI index ranks Brazil as the most unequal in Latin America (World Bank, 2020b). Further, Brazil’s six richest men have the same wealth as the poorest 50 percent of the population; around 100 million people (OXFAM, 2021; Coutinho, 2021). Likewise, the country's richest 5 percent have the same income as the remaining 95 percent (OXFAM, 2021; Coutinho, 2021). On that note, it should be mentioned data from IBGE shows 54,8 million Brazilians live below the poverty line, while many others remain slightly above it (IBGE, 2021). Frequently, the discussion regarding inequality reduction in Brazil is most often associated with anti-poverty policies, thus it should be noted they are not mutually exclusive. Notably, the concentration of incomes in Brazil is so great that simple calculations show that even if poverty was eradicated, inequality would remain very high. Brazil was, to a moderate degree, successful in expanding its two main cash transfer programmes to fight poverty during the first decade of the twenty-first century. Consequently, the number of poor people declined and so did their degree of poverty. However, the effect of these transfers on inequality is very small (UNESCO, 2016). It again reinforces the growing necessity for the literature and body of governments to increase

its attention to alternative drivers of inequality in the country, here presented as the process of financialization.

3. Literature review

3.1 Financialization in the tropics: the Brazilian literature

Bruno et al. (2009) and Lavinias et al. (2017a) are amongst the most influential researchers on the financialization of the Brazilian economy. Starting with Bruno et al. (2009), they have focused on dissecting this process in the Brazilian economy by looking at how the financial system came to be developed in the country. They will argue the Brazilian banking system, unlike most developed economies, has had its development based on deposits (credit market), as opposed to investments (capital markets). This, in return, gave rise to a completely different model, based on public and external credit, which is at the heart of the specifics of the financialization process in Brazil. They will argue this specific evolution of the Brazilian case derives from a governmental policy of economic growth based on the scenario of liberalization of international capital movements and extreme external liquidity. The Brazilian banking sector, in turn, was not designed under the inspiration of a financial system that operated highly concentrated or in a conglomerate manner. Based on the principle of specialization and flexibility of the system – which would allow the development of financial intermediation and the greater mobilization of resources –, the sector started, therefore, to deviate from the founding commitments due to the consequences caused by the financial reforms in which it was restructured. On the one hand, the financial sector soon tried to adjust to the process of financial accumulation (investment in financial assets) and, therefore, to the process of mergers and bank mergers (Bruno et al, 2009).

In that light, bank centralization thus aimed to increase fundraising (via demand deposits), which led to the consequent concentration of the banking system, reinforced by the tax and credit benefits offered by government authorities and by the perception of certain bank agents with future opportunities. Followingly, in 1994, the *Plano Real* was consolidated. It was a package of policies implemented in 1994 to help stabilize the Brazilian economy under Itamar Franco's administration. After a series of failed attempts to control inflation, the Plano Real was designed to stable the domestic currency in nominal terms. The authors point out the Brazilian financial system was significantly altered as a result of this stabilization initiative, which resulted on an unexpected decline in inflation resulted in a major revenue loss after a

long period of profits from outstanding liabilities. Furthermore, because a substantial portion of the banking system specialized in obtaining funds from third parties and the subsequent appropriation of inflationary tax, the decline in inflation has harmed banks' ability to accurately assess investments and risks. The literature then accuses it to have resulted in a particular sort of financialization by inflation, or more precisely, by inflationary gains (Bruno et al., 2009).

3.2 Financialization and the recommodification of social spending

Over the literature collection on the Brazilian financialization process, some works have received a great deal of attention. For instance, Lavinás et al. (2017a) on their work ‘‘Brazil: from Eliticized to Mass-Based Financialization’’ has argued the exacerbated increase of relevance of the Brazilian financial sector has led to a recommodification of social spending. That is to say, the development of banking accumulation and the strengthening of rentier elites at a new level, made possible by the consolidation and connections between global financial markets, has led financial capital to systematically seek to conquer new territories. These include education, healthcare, and welfare systems, all of which are traditionally provided by national States. They argue such services are considered market niches that can only expand if public, universal options are then either removed or minimized, which in return leads to discouragement of societal demand for governmental provision. Expressly, the Brazilian public education and healthcare systems have gone through an erosion of the public option due to underfinancing (Bahia, 2013), which became visible as to the start of financialization via inflationary gains, in an accusation of feeding off of the State’s fiscal crisis. As a recent work, they have been able to argue this trend has not been reversed despite a rise in public spending, but rather deepened (Lavinás et al., 2017a). Precisely, it will be argued that contrary to the social contract enshrined in the 1988 constitution, the neoliberal waves starting in the 90s restructured the role of social policy, by establishing notions of control and conditionality, residual programs rather than universal policies, and a preference for monetary transfers over decommodified provision.

Lavinás et al. (2017a) argue that despite a bias that effectively smothers the public provision of services and pushes the population to the private sector, while allowing the financial sector to capture social policy, the structural element of spending has remained the same over time. That is, Brazil’s social spending (included nearly all monetary benefits paid out to the population either contributory or not) remained virtually unvaried from 2002 to 2015, seen in

the almost identical rates of 70,1% and 68,8% respectively (Tesouro Nacional, 2016). When it comes to the popular flagships of the Brazilian social spending, such as the Bolsa Familia Program created in 2004 (for more please refer to Martins, 2016; Martins & Palacio, 2020), there is an important alteration in the federal social distribution in monetary form. It increases significantly the importance of non-contributory transfers from 3.7% to 8.8% of the total between 2002 and 2015, despite the proportion of spending on welfare benefits to decline from 62.3% to 53.2% under the same period (Tesouro Nacional, 2016). This increase is signaled by Lavinias et al. (2017a) as the expressive rise in the monetization of the Brazilian society's most vulnerable groups, which are then subjected to profound income deficits, now covered by the right to a minimum of subsistence and hence able to join the market quickly in masses. The work of Martins (2016) also reinforces this idea, after a careful analysis of the Bolsa Familia Program, by arguing that while covering 25% of the population, it did little per se to reduce poverty levels in the country (Martins, 2016). The literature, though, emphasizes none of it would come to alter the structural heterogeneity of the Brazilian job market.

3.2 Healthcare and higher education by high finance

The financialization of healthcare and higher education will be considered intrinsic to this study. Thus, it is important to review the literature that includes these notions within the case of Brazil. The works of Lavinias et al (2017a); Lavinias (2017b); Ocké-Reis and Gama (2016) Vasconcelos (2017) will then be reviewed. Altogether, they seem to point to the argument the consistent redirection of hefty parts of the social protection budget to other ends has led to a worsening underfinancing scenario in the healthcare and education sector. These sectors, in turn, are inherently important to provide citizens with equal opportunities and to break the notion of income-linked access to services. A common example is the Brazilian healthcare system, which will be presented here as a paragon of illustration, where the advance of private medicine has been tremendous.

Numbers wise, the direct federal spending in the healthcare sector has flatlined between 2005-2015, varying from 1.47% of the GDP to 1.64% (Tesouro Nacional, 2016), in parallel to an estimated loss of R\$637 billion (or USD318 billion given the exchange at the time) in revenue over the period caused by major tax breaks in the Social Security budget. This, in return, adversely affected the Unified Health System (SUS). It should be noted the SUS is a universal healthcare system covering over 190 million people, 80% of which exclusively rely on it for all purposes (Secretária de Saúde MG, 2021). Again, during the same span of time between

2005-2015, tax exemptions related to healthcare reached R\$199 billion (Tesouro Nacional, 2016), 40% of which were from individual income tax deductions on medical expenses. Ocké-Reis and Gama (2016) have seen this as hampering the proper functioning of the SUS, reinforced by the calculations made over health-expenses deductions for households and companies which observed tax breaks for healthcare as a proportion of spending on public healthcare services by the Ministry of Health remained virtually stable from 2003 to 2013, about 30%. Alternatively, it meant 1/3 of the potential budget for public healthcare spending was taken away for 10 years straight, with the beneficiaries being users of the private medical plans generally including the most affluent households in the country (Ocké-Reis and Gama, 2016). Lavinás (2017b) complements the discussion by adding that under the same period, the market value of healthcare companies and private insurers came to R\$40.4 billion in 2015, as opposed to R\$12.2 billion in 2002, a threefold increase in just 13 years (Lavinás, 2017b). She complements the argument by stating under the same time span, the number of families on private plans increased from around 35 million to over 50 million, with a lower rate of adhesion compared to market value showing the profitability of the private healthcare business in Brazil (Lavinás, 2017b).

Similar dynamics have occurred in the education sector in Brazil. The literature points that private provision advanced in education as a whole, but particularly to higher education at “leaps and bounds”, causing a systematic erosion provoked by financial dominance (Lavinás et al, 2017a). The argument sees that while 14 public universities were created across the country during the Worker’s Party governance, in parallel to a vigorous expansion of the Student Financing Fund (FIES) and other mechanisms for access to higher education, the strategy of expanding the availability of slots at such universities had ambiguous results at best. The percentage of students attending private colleges, which was already high, increased from 70% in 2003 to 75% in 2015. (INEP, 2016). FIES spending, which funds students at private colleges, increased to R\$15 billion in 2015 from what was R\$1.3 billion in 2003. It thus covered 46% of all the federal spending on public federal universities in 2015 (Tesouro Nacional, 2016). Additionally, the government was then fully financing over 40% of the students enrolled in private institutions (Lavinás et al. 2017a). Adding to the discussion, Vasconcelos (2017) argues the privatization of the educational sector has led to an increasingly higher dependence of the State to the maintenance of private institutions, to which she complements by stating the expansion of such private institutions does not equate to the democratization of the Brazilian education. Altogether, Lavinás et al. (2017a) argues the geometric progression of student’s

loans over such a short period of time led to the formation of large educational conglomerates, such as the Kroton/Anhanguera Group, Estácio Participações S.A., Ser Educacional S.A., among others, allowing them to consolidate their market positions by way of aggressive acquisitions and mergers. Continuingly, as the number of students with FIES funding at these second-tier private universities soared, they argue that so did the companies' market value, contributing directly to the stunning rise in these companies' stock prices, an upward curve that tracked along with the boost in public financing. As result, Brazilian firms that expanded internationally such as Kroton, the world's largest higher education company, saw their net worth doubled by a factor of a thousand in just a few years. Precisely, Kroton went from around R\$40 *million* in 2004 to almost R\$13 *billion* in 2014 (Lavinias, 2017b, p. 152). It can then be argued private education, which should be a democratic option without the confrontment of free education and its public budget and space, has suffered an intense and perverse process of financialization, commodification and oligopolization. The dynamics of financial expansion contributing to stronger forces of inequality through different channels, such as healthcare and education, can thus be considered consolidated within the literature over the Brazilian process of financialization.

3.3 Bankarization, financial inclusion and household indebtedness

Bankarization is commonly defined as the access to and use of financial services generally and banking services particularly. In the view of Anastasi et al. (2006) it has the possibility to spur a positive impact on income distribution and poverty reduction. In the Brazilian context, as presented here based on Lavinias et al. (2017a), the Brazilian mass financialization does not necessarily fit the statement. The authors argue that in Brazil, it came to be enabled by new financial system access mechanisms, bankarization, and, in particular, the expansion of consigned consumer credit. Following, bankarization then progressed as the government encouraged recipients of social programs such as Bolsa Familia to open private accounts. These new users were instantly presented with a plethora of small, low-cost insurance policies with dubious efficacy. Likewise, they were able to obtain retail credit at nominal market rates. In 2017, 88% of the adults had a bank account of any sort. Countering, Lavinias et al. (2017a) finds that the rate of indebtedness in households in the country, even if just considering consumer credit, corresponds to 29% of the country's GDP. It is a very elevated percentage which also mirrors the consolidation of the financialization process. But worryingly, despite the economic recession in the country since 2015, this rate of indebtedness has only risen. For

instance, about 60 million Brazilian adults were found to report debts to the financial sector in 2017, on a national survey (Lavinias et al., 2017a).

The authors will come to argue that though consigned credit was already popular among workers in the formal sector, it then came to also be exploited by the financial industry to attract a clientele who relied on the government to guarantee their income (Lavinias et al, 2017a). That is, payments provided by the government become collateral, effectively eliminating moral hazard for banks while ensuring a healthy return. For instance, the authors point that while nominal interest rates for consumer credit were at an average of 140% p.a. in December of 2015, consigned credit charged 30.7% p.a, with zero risk (Lavinias et al, 2017a). Most importantly, the vast majority of borrowers are low-income households. The authors illustrate it by presenting the information that over 60% of loans taken out in 2014 were by households with an income of up to 2 minimum wages. The Brazilian Central Bank has also indicated a 74% household debt-ratio for borrowers within this income group (Tesouro Nacional, 2016).

3.4 Inequality

The traditional literature over income inequality has often been met with criticisms in the light of the Brazilian context. Arguably, Kuznet (1955) provides one of the most influential frameworks over the distribution of income evolution during the post-war. Due to economic and, to a lesser extent, political pressures, Kuznets hypothesized that inequality will usually follow an inverse U-shaped trend, increasing in the early stages of growth until plateauing and gradually dropping. On that note, Souza (2017) argues perhaps it is time to discard Kuznet's conjecture altogether. He finds the Kuznets's inverted U-shaped curve was not seen during the Brazilian trajectory, contrary to what some researchers expected. He also finds that insofar as neither Brazil nor any of the countries listed in World Income Database fit Kuznets's conjecture.

In Latin America, the extensive body of literature on inequality dispute about the origins of the exceptionally high levels of inequality in the region. Conventionally, there is a notion, also repackaged through neoinstitutionalist lens by Engerman & Sokoloff (2002), that attributes the roots of such high inequality to lie in the extractive institutions (Acemoglu, Johnson, & Robinson, 2001) set up during the colonial era. Fast forwarding, there has been a revision of such hypothesis made by Williamson (2015), in which he argues inequality in Latin America, until the early twentieth century, was comparable to that of the West, but trajectories diverged

as the former lost out on the "great leveling" that transformed the latter's income distribution during the "anti-globalization phase" of 1913 to 1970 (Williamson, 2015, p. 338).

Focusing back in Brazil, Souza (2017) finds the patterns of top income concentration in Brazil to resemble recent reworkings of the structural change view which infuse it with strong institutional elements, such as Frankema's (2009) panoramic for Latin America and Milanovic's (2016) reshaped Kuznets waves. Frankema's emphasizes on globalization, de-globalization, while accusing skill-biased technological change to not really match the timing of the changes in top shares in Brazil. Milanovic does a better job of identifying endogenous beneficial and malicious forces that could explain the shape of Kuznets waves, but the timing and frequency of the changes in Brazil cast doubt on the hypothesis's full applicability. Instead, Souza (2017) claims, top shares appear to be considerably more tightly tied to institutional reforms than either method allows for. All great ups and downs are accompanied by rapid shifts in the institutional framework.

Regarding institutional changes, Grusky (2011) claims that democracy is a necessary but insufficient precondition for reduced inequality. The results, he explains, did little to rehabilitate benign and empirically flawed notions that mechanically linked the regime's de jure nature with more egalitarian outcomes. Even the military dictatorship was limited in its early years to pursuing a overbearing and orthodox program; afterwards, the regime was compelled to compromise to some extent. In that light, to return to democracy in 1985 did not result in a sustained and considerable drop in top shares — despite the Gini coefficient suggests otherwise (Souza, 2017). Altogether, this windfall brought by the literature then accuses institutional changes to have influenced the political arena, though they were not particularly relevant to the lowering of inequalities. The answer, when looking at Piketty (2013) and Souza (2017) lies on the fact the political response to these major institutional crisis plays a much more prominent role on that. Political negotiation in more liberal systems usually favors a scheme where an advantage granted in return for something that leaves the income distribution – or at least the concentration at the top – mostly untouched. When it comes to drafting or vetoing new laws, or simply letting current policies “drift” (Hacker & Pierson, 2010), the wealthy may normally mobilize political, economic, and cultural resources to further their interests or mitigate losses.

When relating inequalities to financialization, movements such as “The Occupy Wall Street”, as shown in the literature by Devey & Lin (2013) work in *Financialization: Causes, Inequality*

Consequences, and Policy Implications have tried to spread awareness and mitigate the stunning growth in income inequality caused by financialization in the U.S, a country also plagued by very high rates of income inequality. On that note, Post Keynesian Institutionalism (PKI) scholars have been at the front in associating the process of financialization with inequalities. The extent to which this process affects income inequality has been summarized by Perelman (2008, p.45): "Nothing has contributed to imbalances in the economy so much as the outlandish expansion of financialization, although the imbalances have also promoted financialization." It has been observed that PKI and the financialization literature are united in recognizing that a major structural shift has occurred globally and that an associated institutional evolution of inequalities is still ongoing (Zalewski & Whalen, 2010).

4. Theoretical framework

The theoretical framework guiding this research was chosen in close connection to the literature on financialization and income inequality presented in the previous section. Moreover, it provides a rich framework to develop the methodology grounded in the associations between these variables.

4.1 Post Keynesian Institutionalism

This research is guided by the Post Keynesian Institutionalism notion that as capitalism evolves, so too should economic theory and policy. This study is therefore grounded in the PKI framework, which provides great insight into the causes of increasing income inequality because it, unlike neoclassical theory, explicitly integrates the real and financial sectors of the economy. In particular, this framework is important to assess how the gains generated by economic development and the losses from financial disturbances are shared across social groups (Zalewski & Whalen, 2010). This framework is particularly important because it encompasses the aims of this study in a complete manner. Because it highlights the role of movements in political and economic power in creating economic outcomes, the PKI framework links on the impact of emerging financial systems on economic wellbeing, by providing a useful framework for evaluating distributional issues.

5. Methods and Data

Under this section, the methods and data used shall be explained and justified. Firstly, the single case study and mixed-method approach will be presented, in which both quantitative and qualitative data will be employed, as well as to why it was chosen. Following, the data section will introduce the units of analysis and the justification to each choice. Lastly, the limitations regarding the methodology and the source criticism under this research will be presented.

5.1 Methods

The research is conducted under a single instrumental case study. By doing so, it aims to build an in-depth, contextual understanding of the issue through an analytical approach, while relying on multiple data sources (De Vaus, 2001). As the research requires a comprehensive research strategy to reflect the complex phenomena under examination, a case study best fits the requirements. Likewise, the process of financialization is a heavily contextual matter, thus a case study can most accurately cover its contextual conditions. The single instrumental case study was chosen to help evince or disqualify a relationship between the process of financialization and increasing economic inequalities. Further, as the phenomena falls under different fields of study such as macroeconomics, sociology, economic history, and econometrics, optimal findings will require the use of both quantitative and qualitative methods (Coutinho, 2021). Qualitative methods will include the analysis of documents, journal notes and related reflections. Meanwhile, quantitative methods will focus on numerical analysis of data collected through pre-existing statistical data bases. Likewise, the quantitative methods will also be used to generalize concepts more widely, predict future results, and investigate causal relationships (Coutinho, 2021). The PKI framework, as mentioned, will help guide the analysis and answer the research question, by providing 5 main channels through which financialization can associate with income inequality. They are a) unemployment; b) a decline in private investments within the productive sector; c) unsatisfactory rates of growth over long periods; d) the worsening of welfare policies and e) higher probability to crisis (Zalewski & Whalen, 2010).

5.2 Data Collection

5.2.1 Financialization

By collecting data from IPEA, the Brazilian Institute for Applied Economic Research, this research will construct a quantifiable means to visualize financialization in the Brazilian macroeconomic plan across time (1989-2018). In order to do so, it will examine sources of revenue for non-financial firms relative to revenue generated by productive activities, by constructing a ratio comparing 'portfolio income' to corporate cash flow. Precisely, it is the ratio between the total stock of non-monetary financial assets - given by the difference between the monetary aggregates M4 and M1 (deflated by the IGP-DI) - and the total stock of fixed productive capital net of depreciation, that is, machines and equipment plus non-residential constructions, a means to visualize financialization constructed based on Bruno et al (2007). Doing so will demonstrate the growing importance of portfolio income, which comprises total earnings accruing to non-financial firms from interest payments, dividends and capital gains on investments. Corporate cash flow, in return, is comprised of profits plus depreciation allowances. Thus, the ratio of portfolio income to corporate cash flow reflects the relationship, for non-financial firms, between the return generated from financial versus productive activities. It is, therefore, a relationship between two stock variables – a quantifiable variable that is measured at a particular point of time.

Secondly, departing from a more traditional sectoral analysis, the research will collect data from IBGE, the Brazilian Institute for Geography and Statistics, to examine the growing importance of the financial sector as a source of profits for the economy, comparing financial to non-financial profits. The share of interest income in the total added value is an important macroeconomic indicator of the degree of financialization of an economy, especially in the Brazilian case where interest income is very significant. Like all income, interest flows are deductions from the added value generated by directly productive activities, which capital holders receive for property rights. This data will argue that, above and beyond the increasing weight of financial activities in generating income streams for non-financial firms, the financial sector itself has become an increasingly privileged site of accumulation in the economy. Moreover, data from the IBGE (2021) will also be collected for the unemployment rate variable that will be used to discuss the effects of financialization. Further, data from the World Bank (2021a, 2021b) will be collected regarding financial concentration. Lastly, data from the IMF (2014) is also collected in relation to higher education in Brazil).

5.2.2 Measuring Inequality

This paper will attempt to measure inequality trends in Brazil while being careful to distinguish the various aspects and components of inequality. Notably, for normative and moral reasons, it should be noted the justification of inequality is quite different for income from labor, from inherited wealth, and from differential returns on capital. Consequently, the economic, social, and political mechanisms capable of explaining the observed evolutions are totally distinct (Piketty, 2013). For these reasons, this research will focus on inequality of total income, both from labor and capital. In order to accurately measure it, this paper will collect data from the WID, World Inequality Database, and thus construct a graph with the share of various deciles and centiles in the total income. Guided by the contemporary literature on inequality, this paper will not use the GINI coefficient or other synthetic indexes as they tend to confuse inequality in regard to labor with inequality in regard to capital, even though the economic mechanisms at work, as well as the normative justifications of inequality, are very different in the two cases (Piketty, 2013).

5.3 Methodology limitations

The methodology is not immune to limitations. For instance, as being a case study, it risks suffering from a lack of external validity. Nonetheless, it should be noted the findings and analysis presented under this study are specific to the case chosen. Moreover, there is a challenge concerning the time series on the data collected due to small, though still relevant issues of data scarcity. Not all data has been analyzed under the same span of time, which can lead to an external influence of events not taken into consideration. Nevertheless, all steps of the data collection and analysis have been careful to minimize these risks.

5.4 Source criticism

All data is expected to reflect accuracy and has been collected from officially recognized international and national sources. Nevertheless, the task of measuring income within a country of continental dimensions can be posed as a challenge. The WID is transparent in making the claim that none of the data sources and associated methodology used can be considered sufficient in itself, but that there is the attempt to combine and reconcile in a systematic manner all data sources used in the making of the data base. And while the internal methodology for

all the data collected has its own limitations, taken together they provide a persuasive evidence of the process of financialization of the Brazilian economy and the other variables alike.

6. Findings and analysis

6.1 Quantifying financialization

Figure 2 corresponds to a quantifiable mean to visualize the financialization rate of the Brazilian economy across the period between 1989 and 2018. It indicates this process effectively took shape starting in the late 1990s and has been increasing rapidly ever since. During the period 1995-2015, the disconnecting between applications in financial assets and applications in productive activities reaches a paroxysm. The same period coincides with the emergence and consolidation of the current accumulation regime, the disconnection between financial activities and productive activities is thus considered stark. Precisely, to each one unit immobilized in fixed productive capital, it was found that seven-fold is applied in the financial market. Thus, this leads to the fostering of a rent-seeking behavior coupled with patrimonial accumulation that grows in detriment of Brazil's economic and social development, as pointed by Lavinias et al. (2017a). All in all, this finding reinforces the literature on the rapid process of financialization in Brazil. Most importantly, this section is robust to answer one of the sub research questions: *'how substantial is the current process of financialization in the Brazilian economy?'*.

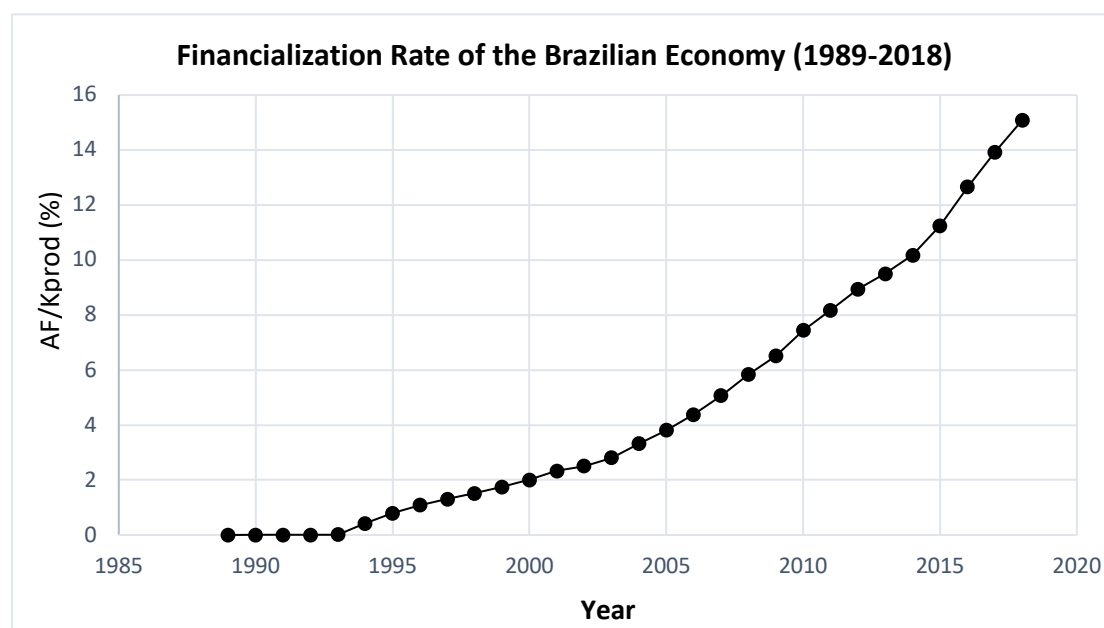


Figure 2: The rate of financialization of the Brazilian economy 1989-2018 (IPEA, 2021)

6.1.1 Share of interest income

Table 1 shows the total flow of interest received and paid by the Brazilian Financial System as a percentage of GDP, for the period 1993-2010, based on data from IBGE. The highlight is due to the high participation of the flow received, 29% of GDP for the 1993-2003 subperiod and 30% between 2004 and 2010. Practically, 1/3 of the total Brazilian product is being absorbed by interest income. This would be one of the reasons for the increase in the tax burden (tax revenue), since the 1990s, since the Brazilian State needs to face the high financial burden in interest rates on directly productive activities. Otherwise, social spending would have to be dramatically reduced. This issue will be better evaluated in the discussion section, which deals with the consequences of financialization on the Brazilian public sector. Overall, the tables contribute to show a rentier value system, which is associated to a finance-led dominated accumulation regime.

Year	Interests Received	Interests Paid	Interests Appropriated
1993	37,40	9,81	27,59
1994	32,57	20,19	12,39
1995	28,72	23,07	5,66
1996	21,51	16,75	4,76
1997	19,87	15,31	4,56
1998	23,26	18,67	4,59
1999	42,37	38,14	4,23
2000	18,64	15,04	3,60
2001	29,87	25,31	4,56
2002	34,96	29,91	5,06
2003	29,66	23,99	5,67
2004	30,30	23,17	7,13
2005	32,71	30,23	2,48
2006	34,83	31,66	3,18
2007	33,46	30,48	2,98
2008	28,60	25,69	2,91
2009	24,77	22,08	2,69
2010	24,52	21,86	2,66
Average 1993–2003	28,98	21,47	7,52
Average 2004–2010	29,89	26,45	3,43

Table 1: Inflow of interests received, paid and appropriated by the Brazilian financial-banking sector in % of the GDP 1993-2010 (IBGE, 2015)

The sectoral composition of interest flows paid and received by sectors of economic activity is an important indicator of appropriation of interest income. The percentages of interest flows paid and received by the five sectors of national accounts will provide information on the sectors that most benefit from this type of financial income system. It is noteworthy that,

despite their deficit position in interest seen in Table 2, non-financial companies show high percentages of gains from interest income. In addition, the interest flows paid and received as a percentage of Brazilian GDP are practically balanced. Table 3 presents the interest flows for the banking-financial sector, where the high financial burden of interest on the Brazilian GDP can be seen. Unlike the government, seen on Table 4, which is much more deficient in interest, with amounts reaching the average of -5.4% of GDP against -0.61% of non-financial companies. The households sector, seen on Table 5, presents a surplus in relation to interest income, reflecting, as expected, the broad holding of financial assets connected to Brazilian public and private debt, by the highest-income Brazilian families.

Year	Interests Received	Interests Paid	Interests Appropriated
2005	6,87	8,31	-1,44
2006	7,24	7,67	-0,44
2007	7,56	7,91	-0,35
2008	7,76	7,83	-0,07

Table 2: Inflow of interests received, paid and appropriated by non-financial companies in % of the GDP 2005-2008 (IBGE, 2015)

Year	Interests Received	Interests Paid	Interests Appropriated
2005	32,71	30,23	2,48
2006	34,83	31,66	3,18
2007	33,46	30,48	2,98
2008	28,60	25,69	2,91
2009	24,77	22,08	2,69

Table 3: Inflow of interests received, paid and appropriated by financial companies in % of the GDP 2005-2009 (IBGE, 2015)

Year	Interests Received	Interests Paid	Interests Appropriated
2005	4,61	10,00	-5,38
2006	4,39	10,49	-6,10
2007	4,08	9,52	-5,44
2008	3,43	8,59	-5,16
2009	3,45	8,36	-4,91

Table 4: Inflow of interests received, paid and appropriated by the public administration in % of the GDP 2005-2009 (IBGE, 2015)

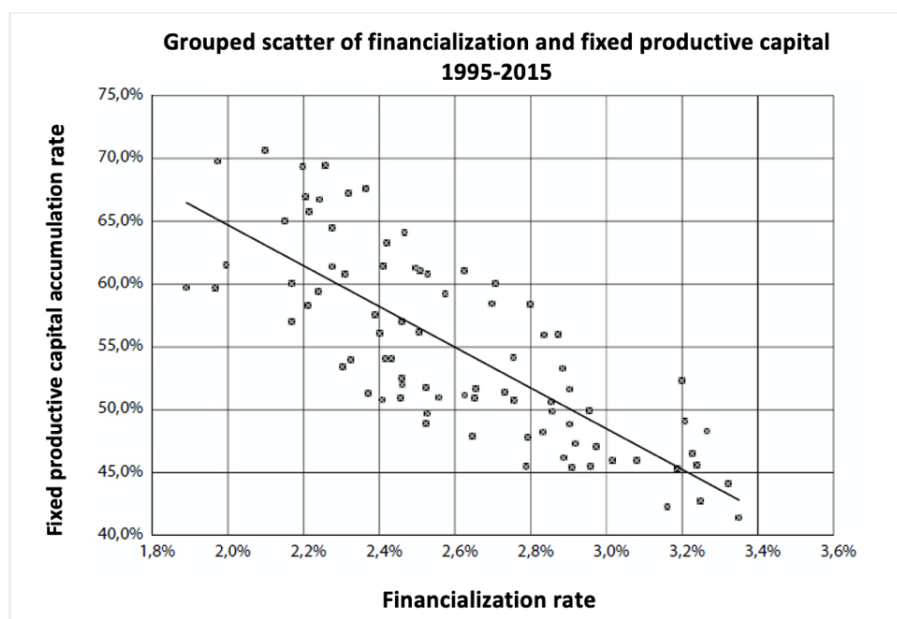
Year	Interests Received	Interests Paid	Interests Appropriated
2005	5,08	2,21	2,88
2006	5,19	2,82	2,38
2007	5,45	3,11	2,34
2008	6,30	4,38	1,93

Table 5: Inflow of interests received, paid and appropriated by households in % of the GDP 2005-2008 (IBGE, 2015)

Overall, the tables can point to the creation of a tax burden which undermines social spending, and as will be explored in the discussion section, leads to a weakened welfare system in a country where over half the population lives in poverty.

6.2 Financialization rate against productive capital

As mentioned in the previous literature, empirical studies in the macroeconomic phenomenon of financialization are almost unanimous in recognizing that financialization contributes to reducing the rates of economic growth when there is a decline in corporate profit rates and in the accumulation of fixed capital. In contrast, economies that are not subject to this effect frequently have profit and accumulation rates that follow a common progression trend, because a higher return on capital in direct productive activities, as opposed to financial allocations, encourages investment.



$R = -0,59$; $p = 0,000$; $R \text{ squared} = 0,3513$

Figure 3: Grouped scatter of financialization and fixed productive capital in Brazil 1995-2015 (IPEA, 2021)

For this analysis, the financialization rate being used corresponds to the ratio between the total volume of non-monetary financial assets and the total stock of productive fixed capital, similar to Figure 2. By looking at Figure 3, a scatter diagram, it is clear to see an inverse correlation between the rate of financialization and the rate of fixed productive capital accumulation. The correlation coefficient is $-0,6$, which is statistically significant. Notably, as the financial allocation progresses proportioned to the capital stock, the productive investment declines. It does so because financialization raises to a paroxysm the capital holder's preference for liquidity and notably, in the Brazilian case, the income of interest generated by Brazilian Treasury Bonds competes advantageously with the return on capital in direct productive activities. Therefore, this research concludes corporations outside the financial realm have increasingly shifted their investment strategies from production and employment in the real economy to that of financial speculation. In return, while they have done so, it reduced employment and helped increase inequality, also seen later in Figure 6 and 7.

6.3 Banking concentration

Figure 4 shows the banking concentration in Brazil, by looking at the 5 largest banks and their assets concentration with data from the World Bank (2021a). While a heavy banking concentration is not particular to Brazil, its rate of expansion makes it unique. In 2000, the 5 largest banks in Brazil – Itaú, Banco do Brasil, Caixa, Bradesco and Santander – accumulated 48,7% of the banking assets in the country. In 2017, this percentage had risen to 83,4% (World Bank, 2021a). While looking at other emerging economies, Brazil's trajectory differs greatly, assuming a similar position to that of developed economies such as Australia, though with a very different configuration of its financial system.

By looking at Figure 5, it can be seen the Brazilian banking system also stands out for its extremely high banking spread – the second highest in the world after Madagascar (World Bank, 2021b). Precisely, the bank spread should be noted as the difference between the interest rate charged to a borrower and the interest rate paid to a depositor indicated by a percentage. The relationship of both variables here presented will be further discussed later on.

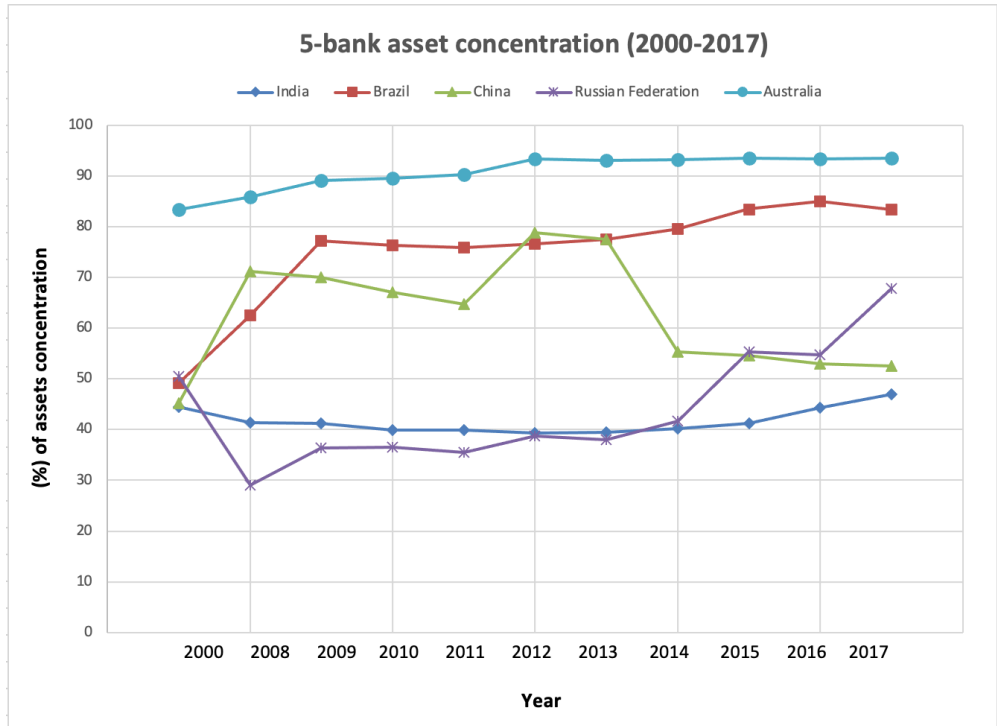


Figure 4: Cross-country comparison of the 5 largest banks asset concentration (%) 2000-2017 (World Bank, 2021a)

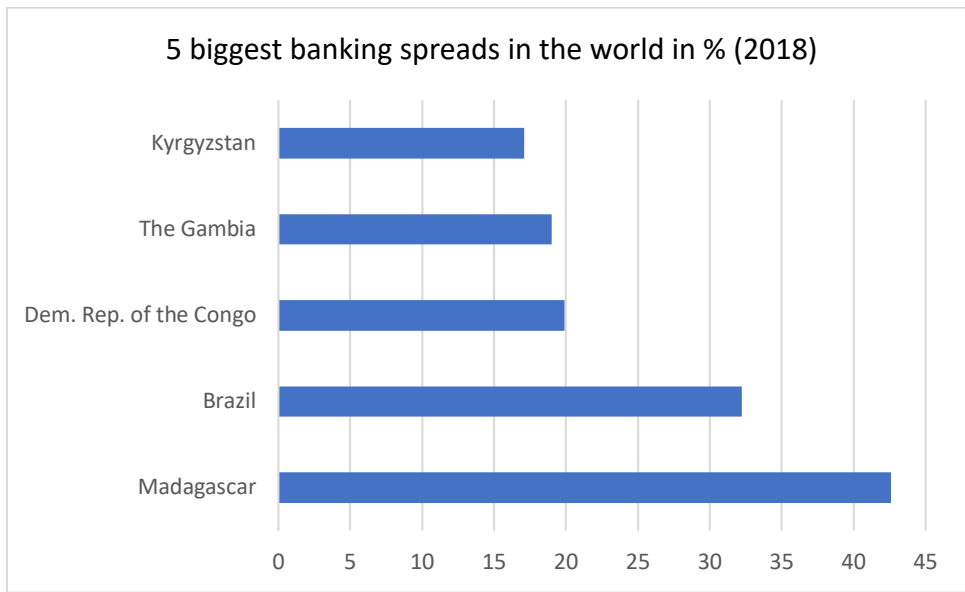


Figure 5: Cross-country comparison of the 5 biggest banking spreads in the world (%) 2018 (World Bank, 2021b)

6.4 Inequality

Figure 6 represents the inequality of total income, thus including labor and capital, in Brazil across the period between 2001 and 2018. In 2018, inequality of total income in the top decile corresponds to almost 60 percent of total income of all Brazilian families. Within that group the top 1 percent receives about 30 percent. On the other hand, the bottom 50 percent of the population has only accounted to 9,8 per cent of the total income. This study will point inequality of total income has been increasing in Brazil since 2015, thus widening the gap of income distribution regardless of an overall GINI decline under the same period.



Figure 6: Inequality of total income in Brazil 2001-2018 (WID, 2021)

Figure 7 shows the unemployment rate in Brazil across the period between 2012 and 2021 with data extracted from IBGE (2021). Precisely, this unemployment rate refers to people of working age (above 14 years old) who are not working but are available and trying to find work. It should also be noted students and housewives, under this data, are not considered to be part of the workforce. Thus, for someone to be considered unemployed, it is not enough not to have a job, but to fit all the criteria (IBGE, 2021).

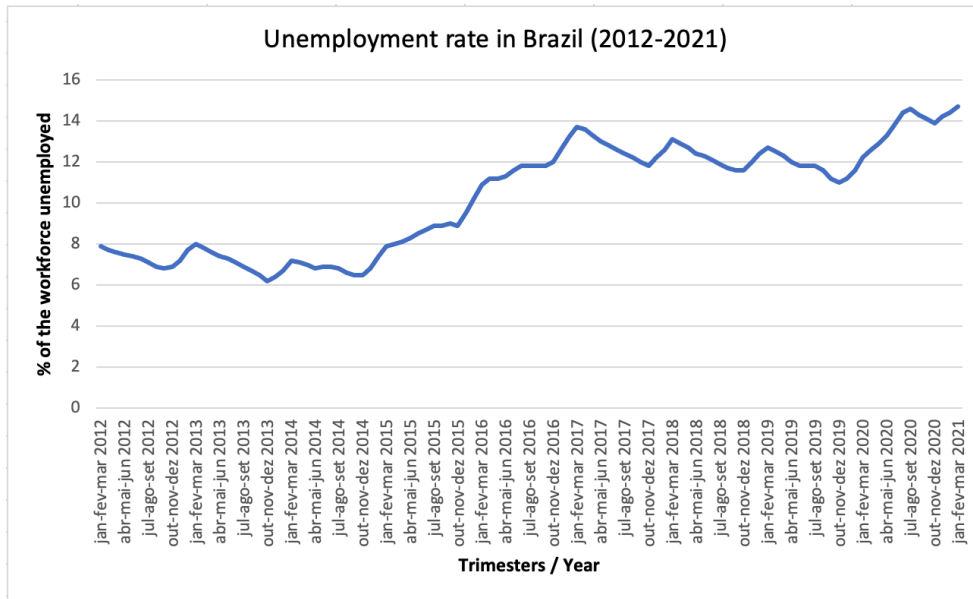


Figure 7: Unemployment rate in Brazil 2001-2018 (IBGE, 2021)

Figure 8 shows a positive correlation between the rate of financialization and the rate of unemployment in Brazil during the period between 2012 and 2018. It shows a significant positive correlation between an increase in the rate of financialization and the unemployment rate.

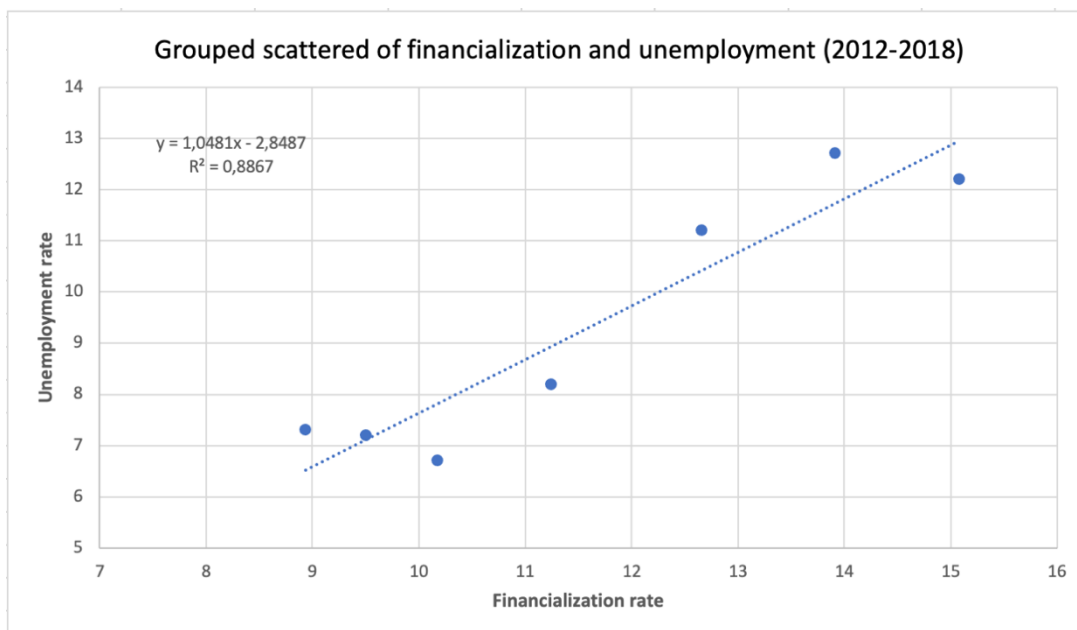


Figure 8: Grouped scatter of financialization and unemployment in Brazil 2012-2018 (IPEA, 2021 & IBGE, 2021)

Figure 9 points the overrepresentation of the top quartile in the Brazilian household distribution of income as students at public universities. In public universities, 47% of the student population belongs to the top quartile, and as little as 9% belong to the bottom quartile. This association with financialization and inequalities will be further discussed in the next section.

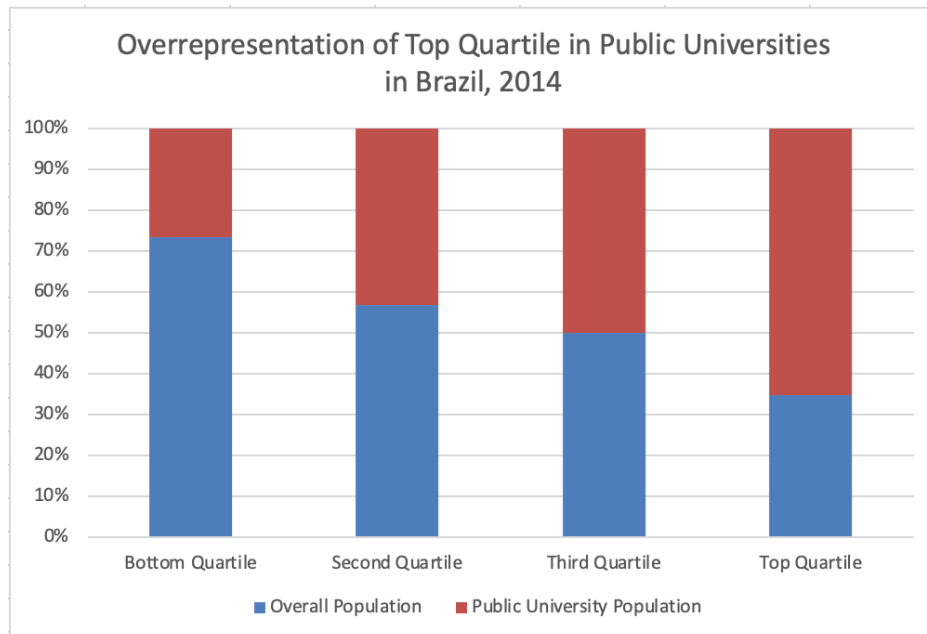


Figure 9: Share of overall population and public university population which belong to each quartile of household income per capita in Brazil, 2014 (IMF, 2014)

7. Discussion

7.1 Is financialization associated with inequalities in Brazil?

The discussion regarding the association between the development of capitalism and the increase of inequalities is not new, seen it become popular through the reflections within the works of Rousseau (1754) and Marx & Engels (1845) centuries ago. Nonetheless, this relationship has evolved and taken on different shapes ever since. Therefore, the research question “*How does the process of financialization of the Brazilian economy affect inequality trends in the country?*” will then be further answered in 5 different sub-sections following the PKI framework and methodology. Namely, they are a) unemployment; b) a decline in private investments within the productive sector; c) unsatisfactory rates of growth over long periods; d) the worsening of welfare policies and e) higher probability to crisis. On a general note, this research argues that financialization has been a conducting wire to the worsening of income

inequalities in Brazil, a country that has historically been battling it off. The next sections will more carefully discuss this statement.

7.1.1 Unemployment

Figure 7 shows the unemployment rate in Brazil has been increasing rapidly, especially after 2015, when a strong recession started afflicting the country. When coupled with the high levels of household indebtedness, which Lavinias et al. (2017a) carefully related to the process of financialization and access to consigned credit, it becomes a great conductor for an increase in total income inequality. Figure 8 shows a positive correlation between the increase in the rate of financialization and the jump in the unemployment rates, thus providing the basis to associate these two variables. It reinforces the previous literature by Bruno et al. (2007), which suggested countries with a high degree of financialization were inclined to an increase in structural unemployment.

7.1.2 Decline in private investments within the productive sector

Figure 3 showcases an inverse correlation between the rate of financialization and investments in the productive sector of the Brazilian economy, confirming a decline in private investments within the productive sector. Notably, Brazil has assumed a growth regime in which monetary and financial circulation, rather than directly productive allocation, becomes the basis for the revaluation of capital, and therefore should be classified as a finance-dominated accumulation regime. When looking at Tables 1 to 5, the capitalization of interest at the official rate accounts for a large portion of the expansion of financial assets in the Brazilian economy, as well as the attractiveness it has over short-term foreign capital flows, causing international reserves to follow suit. On the other hand, as Boyer (2004) pointed out, this is indirect evidence of the impact of financialization on macroeconomic dynamics, as it allowed the average rate of profit to rise while the rate of accumulation of fixed productive capital remained stagnant, at the lowest level in the history of Brazilian industrial development.

Following the PKI framework, it can then be argued this process has then distorted the logic of economic investments and thus led to a reduction of the mutual dependence of capital and labor – it has eroded the social contract that perpetuates capitalism delivers profits to the owners of capital and a growing standard of living (Lavinias et al, 2017a; Zalewski & Whalen, 2010). The financialization of the Brazilian economy can thus be associated with the previous literature on

the decline of investments within the productive sector of the economy by means of this research.

7.1.3 Unsatisfactory rates of growth over long periods

Figure 4 and Figure 5 showcase the banking concentration within the Brazilian financial system, as well as the extremely high bank spread. Both together have been pointed as influencing negatively economic growth over time and came at the result of the financialization rate. According to PKI scholars, such as Joaquim & Van Doornik (2019), there is a correlation between the banking concentration and the bank spread rate. The literature points that in the Brazilian case, the more concentrated the banking system is, the higher the spread rate will be. As a consequence, there is a reduction in the volume of credit offered through loans. It argues it ultimately leads to a reduction in the economic activity, and in practical terms, unemployment as well. Altogether, it calculates that if the Brazilian system were to have followed international banking competition standards, including lower a spread, the Brazilian GDP could have grown to a 5% higher rate (Joaquim & Van Doornik, 2019). This research will point to financialization as accentuating the functional reconcentration of income, thus bridging a wider income gap with unsatisfactory rates of growth over long periods, relating to the literature that pointed this association out.

On a different note, it could be argued that under this financial model the current stock of fixed capital has a higher technological content and, as a result, can grow at lower rates than the import substitution industrialization model. The issue is that in this case, the rate of job creation is slowed, condemning the Brazilian economy to high levels of structural unemployment and limiting the dynamics of effective demand in the medium or long term, relating to the previous section on unemployment.

7.1.4 Worsening of welfare policies

The recommodification of social spending caused by financialization has led to the worsening of welfare policies and should be considered a channel through which financialization has contributed to income inequality. Notably, this research will argue subsidies for education divert funds that could otherwise be used to improve equality of income. While investments in education can be both pro-growth and pro-equality (Ostry et al, 2014), it can also be viewed as a blanket subsidy, as weakly targeted transfers are inefficient use of scarce resources in general. Public universities in Brazil are tuition-free. They are also more accessible to students from

richer families, who have frequently attended private elementary and secondary schools. Based on data extracted from the IMF (2014), approximately half of the public university student population comes from homes in the top quartile of the income distribution, with as little as 9% of students coming from households in the bottom quartile. This form of implicit subsidy disproportionately helps the wealthy. Redistributing resources away from tertiary education and toward enhancing early childhood and elementary schooling could improve total spending progressivity and increase equality of opportunity. Given that many Brazilians do not complete secondary school and that the rate of return on investment in human capital is higher at lower levels of education (Heckman, 2008), focusing education spending on the poor while cutting subsidies to the wealthy can save money while improving access to education and, as a result, improving equality of opportunity and income.

On a different note, this research will argue the recommodification of social spending, which has been fostered by financialization, has social security penalized and thus negatively impacting inequality trends. With limited resources reduced to the point that public service quality and scope are affected, highly stratified income segregation patterns are reinforced as a result. When it comes to cash transfers, it can be argued they have suffered from financialization by means of being used as collateral to support the consumer credit rapid increase, and thus facilitate the financial sector's capture of income that otherwise should raise living standards of those who are nominally included but are effectively discriminated against. Its rapid expansion among the poorest members of society suggests that it serves a purpose other than addressing market flaws and maintaining socioeconomic stability; its function has been reinterpreted by a financialized capitalism's accumulation regime.

7.1.5 Higher probability to crisis

Figure 1 shows an increase in the GINI index in Brazil starting in 2015 after an overall period of decline, while Figure 6 also shows there has been an increase in the gap of total income distribution after that period. Both together, guided by the literature, can help reveal a probability to crisis in the country. Precisely, without a strong security net among a big portion of the population – faltered by the recommodification of social spending and high levels of household indebtedness amongst Brazilian households –, both the Brazilian economy and society is prone to suffer more from recessions, financial, social and health crisis.

Moreover, while subjected to a high degree of financialization, Bruno et al. (2007) has argued an economy is less likely to be predictable within the macroeconomic plan, which is worrisome in anticipating a crisis.

7.2 How does the Brazilian socio-economic development context fit into the discussion of finance-led growth and State-led development?

This section aims to answer the last sub-question which is presented at the title while at same time present a reflection over the Brazilian financial system. All in all, guided by the previous literature and the findings, this study will argue that amidst the process of financialization, the banks and financial sector overall have swiftly assumed the role of the State, and therefore social policy. That has happened due to the financial sector's selling of 'security', by granting loans for short-term solutions. This can lead to a cyclical crisis that cannot be escaped if not by retaking charge of social spending and social investment and overall role of the State. Financialization, here including financial liberalization and financial deregulation, has led to retractions in employment, a fall in private investment and low growth for long periods that leads to recurring financial crisis and dramatic loss of well-being. This should be understood in order for new alternatives to be formulated, including new proposals to curb the dynamics of financial capital, so that it does not continue being the engine of growth. Precisely, it is because the growth generated by financial capital feeds capital with interest and speculation, but does not allow, necessarily, for a redistribution from the point of view of the real economy. By having social spending assume the main role, Brazil can benefit an anti-cyclical function. Expressly, that is to alleviate the consumption of the poorest, so it prevents them from losing their human capital and become impoverished. In practical examples, it could mean preventing them from taking their children out of school, and above all, contributing to the coping of a crisis, and thus reducing the social impact of an economic slowdown, or even more, of a recession. This research will then consider social spending to be an anchor for economic growth, and that it is of great importance for it to be understood. Notably, the literature, especially by Lavinás et al. (2007a) and Lavinás (2007b) along with this research has contributed to associating financialization in the Brazilian economy as affecting social spending negatively, and therefore, along with the text in other sections, economic growth.

8. Conclusion

This research has respected the very contextual nature of financialization and promoted an in-depth investigation into the Brazilian economy. It was found this process took shape with the development of a banking system grounded on deposits and credit markets rather than investments and capital markets. That meant Brazil, unlike most economies, had taken on a different model based on public and external credit. As an ongoing process, this study aimed to find its associations with inequality trends in the country guided by the post-Keynesian economic thought, which had suggested to financialization being responsible for the worsening of income distribution earlier on. This research found, that in the case of Brazil, financialization has acted as an obstacle to reducing total income and social inequalities. Notably, the wealthiest share of the Brazilian society has increased at a faster pace than the lower classes have reduced, demonstrating an increase in inequality despite an overall decline in the GINI rate during the same period of time. It acts as an even greater structural barrier for developing countries and emergent economies, such as Brazil, because it causes a functional reconcentration of income in favor of capital holders without necessarily inducing them to increase the level of productive investment, which is a key factor in the generation of jobs and income. This research has constructed a mean to quantify the rate of financialization and therefore analyze it against the rate of fixed productive capital and the rate of unemployment. By doing so, it was found there has been a shift in investment strategies away from production and employment in the real economy toward that of financial speculation, which this study considered a contributing factor to the increase of inequality, unemployment and an obstacle to economic growth. Thus, it made a positive contribution to the works of Lavinias et al. (2007); Devey & Lin (2013); Piketty, (2013); Krippner (2015) which, at different extents, had previously looked at financialization affecting inequalities.

This research has also paid great attention to how financialization affected the dynamics of social spending. It was found the recommodification of social spending, in particular in the healthcare and education sector, to have affected inequality in Brazil by means of reinforcing income stratification. This rapid progress over the most disadvantaged portions of the population has also implied that it serves a purpose other than resolving market faults and sustaining socioeconomic stability; its role has been redefined by financialized capitalism's accumulation regime. Moreover, this research sees that the State plays an important role in both processes of financialization and better income distribution. What we see is that social

policy that have an important role to reduce income inequality become collateral to ensure access to financial system.

Though a more detailed research heavily focused on data analysis is necessary to solidify the notion of financialization having a strong causal relationship with inequality trends in Brazil, this paper has been consistent in presenting the main channels through which inequality of total income has been reproduced by the Brazilian financial system.

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